1 - Email - December 31 2016 - RE_ Draft Report.pdf

From:	Patricia O"Malley
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Subject:	RE: Draft Report
Date:	December-31-16 4:22:24 PM

Hi Lucy
Thanks for the draft report and comments document.
Travel well and have a great visit with your family!
Happy New Year and see you in January.
Cheers!
Tricia

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: 31-Dec-16 15:54
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold (mgold@kmlaw.ca) <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) (Paul.Martin@gnb.ca) <Paul.Martin@gnb.ca>; Uros Karadzic (uros.karadzic@ca.ey.com) <uros.karadzic@ca.ey.com>
Subject: Draft Report

Dear All,

I hope everyone had a happy Christmas.

Please find attached the draft report as of today, as well as a document that combines all of the comments, and provides a comment from me on each of them. Generally I accepted all the tracked changes that were suggested, although subsequent further edits may have been made for clarity as items moved around etc.

I hope everyone has a Happy New Year.

Regards,
Lucy

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1 - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

CONFIDENTIAL DRAFT

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies

CONFIDENTIAL DRAFT

that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and

CONFIDENTIAL DRAFT

implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

CONFIDENTIAL DRAFT

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

CONFIDENTIAL DRAFT

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets

CONFIDENTIAL DRAFT

and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

CONFIDENTIAL DRAFT

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:

CONFIDENTIAL DRAFT

(a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').

(b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:

(i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP

CONFIDENTIAL DRAFT

for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different sponsors. A

CONFIDENTIAL DRAFT

determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

CONFIDENTIAL DRAFT

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If

CONFIDENTIAL DRAFT

application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally

CONFIDENTIAL DRAFT

considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP

CONFIDENTIAL DRAFT

means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

CONFIDENTIAL DRAFT

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other

CONFIDENTIAL DRAFT

parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to

CONFIDENTIAL DRAFT

negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true

CONFIDENTIAL DRAFT

economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a

CONFIDENTIAL DRAFT

clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a

CONFIDENTIAL DRAFT

reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any

CONFIDENTIAL DRAFT

agreement, the existing contribution levels are “fixed” and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole sponsored plans and JDBPs

CONFIDENTIAL DRAFT

may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is

CONFIDENTIAL DRAFT

not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the

CONFIDENTIAL DRAFT

financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

CONFIDENTIAL DRAFT

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDE

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

1 - PENSION ASSET EXPERT ADVISORY PANEL PM UK MG TOM.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

Mandate of the Panel

- The Pension Asset Expert Advisory Panel (the Panel) was formed to address
  - 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.

- Looked at recognition and measurement of pension assets arising in certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), collectively the "Plans") in accordance with Canadian public sector accounting standards (PSAS).

- The recognition and measurement of pension assets arising in other plans, ~~such as~~specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP~~))~~, will be covered in a later supplemental report that considers the different attributes of these plans

CONFIDENTIAL DRAFT

Nature of the pension plans examined

- Pension plans are not all alike. Each pension plan has distinct ~~contractual and other~~ arrangements that must be considered in assessing the accounting ~~for that plan~~. This is particularly true of the JSPPs, where there is greater variation in the plans' governance, funding policies and other matters that require a careful examination of appropriate accounting for each of the plan's particular facts and circumstances.
- The relevant ~~legislative acts~~legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A.
- ~~While the~~The Provincial Government ~~has the legislative ability to change the relevant Acts, it~~ has ~~also~~ entered into contractual arrangements~~arrangements~~~~arrangement~~ with the employee sponsor(s~~).~~) of the Plans that govern the relationship between the Plan sponsors, including with regard to plan surpluses and deficiencies.~~).~~ For accounting purposes the existing contractual agreements are past transactions and are used for assessing existing rights and powers under the arrangements. Changes to the contractual arrangements (or whether a government's has the ability to set aside a contract using sovereign power) are not considered unless, or until, any such change~~schanges~~~~change~~ ~~were to~~ become effective.
- Under pension legislation (in Ontario, the Ontario Pension Benefits Act),~~,~~ there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements.
- ~~Similarly, under PSAS u~~Under Public Sector Accounting Standards (PSAS) there are several categories of defined benefit plans, which include joint defined benefit pension plans (JDBPs) as a separate category from single sponsor or multi-employer plans.
- In JDBPs a government sponsor share~~s~~ the risks ~~and rewards~~ of a defined benefit plan with plan participants, represented by a sponsor or sponsors. ~~The~~ A key characteristic of a JDBP is ~~that there is~~ a formal agreement between the sponsors which ~~establishe~~sd~~establishe~~sd~~establishedestablishe~~sd ~~that the sponsors have~~ shared control over the plan. By definition, neither sponsor has unilateral control over the plan, as joint control (shared decision making) is an ~~inherent~~ essential requirement for a JDBP.
- Other characteristics of JDBPs include:
    - Funding contributions are shared mutually between the government and plan members

Commented [MG1]: Do we need this sentence? There is litigation over the government's ability to unilaterally legislate changes to a pension arrangement, and I would prefer to avoid the issue if we can.

Commented [LD2R1]: Sentence deleted

CONFIDENTIAL DRAFT

- The sponsors have shared 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 as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks, both positive and negative, associated with the benefit plan~~.~~
- The government does not retain any residual risk (eg. in respect of the obligation already accrued).

- ~~Historically,~~ OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan (PBA) and ~~became~~ a joint defined benefit plan for accounting purposes. OPSEUPP was ~~carved~~ separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan (PBA) and a joint defined benefit plan for accounting purposes.
- The motivation for making these changes was ~~so~~ for the Provincial Government ~~could~~ to transfer a share of the risks and costs of the obligation to the members of the plans. In return for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning ~~both~~ that the arrangement contemplates ongoing discussions between the sponsoring parties ~~to agree to significant~~and joint decision-making about issues ~~plan~~ decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.
- As both the funding risk and rewards and the governance of the plan are shared between the employer sponsor(s) and the employee sponsor(s) the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be ~~a~~ fair and an equitable basis ~~fair deal~~ arrangement ~~for both sides while achieving a public policy aim of~~ ~~of~~ ~~for~~ ~~or reducing the risk of the obligation to the Provincial Government~~.

- ~~The~~ A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the control that a single sponsor would have over setting contribution rates and benefits. Plan oversight has been replaced with joint control over those decisions ~~decision~~. The sharing of the risks ~~and rewards~~ of the pension plan on an equitable basis is consistent with the sharing of control over those policies that influence the outcomes of the pension plan.

CONFIDENTIAL DRAFT

OTPP – Structure and organization

Sponsors

- The OTPP is a jointly sponsored pension plan.
- The joint sponsors are the Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor.
- The ~~partnership~~ Partners' A~~a~~greement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.
- Other employers also~~are part of~~participate in the plan, ~~meaning~~ such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

- The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and implements an investment strategy,~~, such as investment of assets, payment of~~pays pension ~~–~~benefits, ~~preparation~~ authorizes the preparation of ~~pension~~ actuarial valuations and ~~managing~~generally manages~~ing~~~~managing~~ the pension plan and fund.
- The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

- ~~The~~ A basic funding ~~arrangement~~ provision, set out in the Teachers' Pension Act, is that the employers' contributions ~~shall~~ must not exceed those ~~of~~ made by the members in the year before the preceding year.
- Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the ~~a~~ previous year. This has resulted~~s~~resulted~~s~~~~results~~ in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).
- A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.
- The contractual arrangements require ~~that~~ an actuarial valuation for funding purposes ~~is~~ to be prepared at least once every three years to comply with the *Pension Benefits Act*. This actuarial valuation is required to be "actuarially balanced" – meaning that the benefits and costs to be paid from the fund plus any contingency reserve must equal~~s~~ the present value of the

Commented [PM3]: ??????

Commented [LD4R3]: Actuarially balanced has been more clear as to what the definition of this under the arrangement.

CONFIDENTIAL DRAFT

members'~~members~~ and employers'~~employers~~ contributions and special payments. Procedurally, the tri-ennial valuation process commences with a~~A~~ preliminary valuation ~~is~~ prepared by the Board's actuary based on the existing terms of the plan. ~~but t~~To~~t~~To~~to~~ the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation.

- The changes to the plan agreed upon by the joint sponsors could be to increase or decrease contributions for employers and/or members or to improve benefits payable to members. Money may also be left in an actuarial reserve. Negotiations~~Negotiation~~ must be ~~made~~ carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration.
- The joint sponsors have agreed to a Funding Management Policy (FMP) which~~,~~ ~~although not binding,~~ sets a framework for the sponsors to negotiate the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada)*, ~~clearly indicates~~requires that once the OTPP meets certain funding thresholds, ~~above a certain funding~~? ~~range~~ the ~~sponsors~~ Partners ~~can~~ must? negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two).~~.~~
- The OTPP plan text does not limit the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the required negotiations.

OPSEUPP – Structure and organization

Sponsors

- The OPSEUPP is a jointly sponsored pension plan.
- The joint sponsors are the Provincial Government (represented by the Chair of the M~~m~~anagement Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor.
- The joint sponsors established a trust (OP Trust) and the declaration of trust between the joint sponsors and the trustees of OP Trust sets out how shared control is achieved and governs all aspects of the plan.
- ~~Other employers are part of the plan, meaning the OPSEUPP is also a multi-employer plan, but these employers are not sponsors.~~

Commented [PM5]: An outcome is always achieved. T

Commented [LD6R5]: Updated for this point.

Commented [MG7]: I think the FMP is binding on the Partners, but is not binding on the Board as the board is not a party to the FMP. The FMP is, technically, part of the Partners' Agreement.

Commented [LD8R7]: I had understood that the FMP was a "framework" to guide decisions, and is not binding in that respect. However, I do agree it forms part of the partners agreement. I have tried to clarify the language used. Please let me know if this addresses sufficiently.

Commented [LD9]: Confirm this is correct. Sponsor agreement states it is a single employer plan, but other parts of the plan text indicates that it is multi employer with crown corps etc.

Commented [MG10]: OPTrust is deemed not to be a multi-employer plan notwithstanding certain characteristics that might suggest otherwise.

Commented [LD11R10]: Thank you. Sentence deleted.

CONFIDENTIAL DRAFT

Decision making

- The ~~Trustee~~ Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Provincial Government and OPSEU.
- The ~~Trustee~~ Board of Trustees ~~votes on~~makes decisions ~~resolutions~~ by majority vote. This means that at least one T~~t~~rustees representing ~~both~~ each of the Provincial Government and OPSEU must agree~~.~~ to a resolution in order for it to be adopted.~~.~~ In the case of a deadlock there are agreed upon procedures to ~~determine~~ appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by~~2~~ the Chief Justice of Ontario).
- The ~~trustees~~ Board of Trustees is ~~are~~ responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund. ~~including the investment of assets, payments of benefits, receipt of contributions, preparation and filing of actuarial valuations in accordance with the Pension Benefits Act~~
- The Board of T~~t~~rustees ~~have~~ has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan are the responsibility of the sponsors, except where the PBA's minimum funding rules impose additional contributions or special payments.
- Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

- The basic ~~funding~~ contribution requirement ~~arrangement in~~under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag (s.4.6 of OPTrust Plan Text).~~.~~
- The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the PBA, the Board of Trustees may elect to file a valuation more frequently s1.3 of OPTrust Funding Policy).
- In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF (s.56(c) and s.57 of OPTrust Sponsorship Agreement). Through collective bargaining, an allocation of funding surpluses on a basis that is different from

Commented [PO12]: I thought that if none of the pre-authorized third trustees was available, the decision maker was to **be** the Chief Justice.

Commented [LD13R12]: Resolved by Murray's comment

Commented [MG14]: The Chief Justice is responsible for selecting an 11th Trustee but is not the 11th Trustee. See 7.02 of Trust Agreement.

Commented [PM15]: Different font showing up here?

Commented [LD16R15]: Fixed

CONFIDENTIAL DRAFT

50/50 may be agreed. The Province may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the PBA and the *Income Tax Act (Canada)*. The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities (5.2 of OPTrust Funding Policy). There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

- In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency (s.58 of OPTrust Sponsorship Agreement). The only exception is in the event that the Province or OPSEU has an RSF and chooses to apply it to offset its share of a funding deficiency.
- ~~Funding zone agreements~~
- In principle, with a sufficient RSF, either OPSEU or the Province could reduce their contributions to zero. ~~Limits (or lack thereof) on negotiation of contributions set by plan text~~
- The plan text (s.6.4) clearly states that no amount of surplus shall be paid out of the plan to the Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. ~~However, it is also clearly stated that contribution~~
- ~~However, it is also clear that contribution~~cContribution ~~reductions are not considered to be a pay out of surplus.~~
- ~~Any net actuarial gains that arise (after funding certain specific transitional liabilities which have now been satisfied?)?)) are to be used equally for the benefit of the sponsors (employers and OPSEU).). Specifically, 50% of the gain may be collectively bargained?. and used to the benefit of the employers, and 50% of the gain may be collectively bargained and used for the benefit of plan members. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.~~

Panel view

CONFIDENTIAL - DRAFT

Commented [MG17]: OPTrust does not have funding zones in the OTPP sense – zones that are defined by the circumstances of the plan vis-à-vis run rates, with different discount rates and different permissible uses of surplus.

Commented [LD18R17]: Thank you.

Commented [PM19]: What are we trying to say here?

Commented [LD20R19]: Fixed via Murray's edits

Commented [PM21]: Not clear?

Commented [LD22R21]: Fixed via Murray's edits.

Commented [MG23]: Yes, they have been satisfied.

Commented [LD24R23]: Thank you. Updated.

Commented [UK25]: Is this correct? Does this need to be bargained?

Commented [LD26R25]: I misread the words. Murray's edits have helped clarify. It is the allocation that can be bargained, not the use once allocated.

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250 since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance

- The accounting analysis is performed ~~under~~ in accordance with Public Sector Accounting Principles (PSAS) as issued by the Canadian Public Sector Accounting Board.
- PSAS ~~provides~~ identifies sources of guidance in determining appropriate accounting principles in PS 1150. First must follow any specific standard that relates to the issue under consideration (apply every source of primary Generally Accepted Accounting Principles (GAAP~~).~~). In this case, PS 3250, *Retirement benefits* is a standard that ~~relates to~~ specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance ~~specifically~~ on accounting for joint defined benefit plans.
- If a primary GAAP source, such as PS 3250, is not clear, whether the government would develop an accounting policy considering other standards within PSAS and Section 1000, *Financial Statement Concepts*.
- A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and Section 1000 above.

Panel View

- The Panel considered the guidance in PS 3250.
- In addition, the panel noted that there were some areas where PS 3250 is not clear with respect to how the guidance in PS 3250 applies to JDBPs. In these cases the panel referred to relevant other guidance, as identified in the analysis below.

Recognition issues

CONFIDENTIAL DRAFT

Commented [PO27]: The uncertainty regarding the ceiling test both w.r.t. "minimum contributions regardless of surplus" and the period for which contributions are fixed I think arises for all plans not just JDBPs?

Commented [LD28R27]: Have added in more detail, including that minimum contribution issues relate not just to JDBPs

Commented [UK29]: Is this sufficient? Should we be more specific and detailed?

Commented [LD30R29]: Have added in more detail on the specific areas

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

- PS 3250 Paragraph 81states “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”.
- The panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:
    - Interpretation A) Divide the plan between the sponsors’ respective portionsportionsportion, and the government applies the guidance on Defined Benefit plans in PS 3250 only to ~~their~~ its portion;
    - Interpretation B) The government applies ~~-~~the Defined Benefit guidance in PS 3250 to the plan as a whole ~~using~~ and then recognizes only its portion of the plan in its financial statements
- The interpretation of this paragraph affects the perspective through which the asset recognition guidance in PSAS and the guidance on defined benefit plans in PS 3250 is applied (to the plan or the government’s portion of the plan).
- For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Province and AG seem to implicitly adopt this view in their analysis.
- Under interpretation B, the assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

- Interpretation B is, in the view of the Panel, a more appropriate answer because it aligns most closely with the concepts of Defined Benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.
    - Defined Benefit plan accounting in Financial Statements for all plans is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as “Assets” of the government and plan liabilities as “Liabilities” of the government, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an “equity method” of accounting which reflects the sponsor’s interest in the net assets (or net liability) of a plan

Commented [PM31]: Panel View. Do we need to separate this under such a heading?

Commented [LD32R31]: Have re-worded the panel considerations to move the conclusion to the conclusion section.

CONFIDENTIAL DRAFT

than to a proportionate consolidation accounting. Therefore, it ~~similarly~~ is appropriate to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining the sponsor's portion of the plan.

- The fundamental difference between a single sponsor plan and a joint defined benefit plan is in the latter, control is shared and a sponsor has only a portion of the positive or negative risks ~~and rewards~~. It would be consistent to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.
- The contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over ~~their~~ its portion of the plan. For example, there is one funding policy, one Partners' agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on that govern the respective plans. Members' service and earnings are also measured as a whole, and not split between different sponsors. A determination of the assets and the liabilities can only be made with reference to the plan as a whole. Therefore, it also follows that other aspects of the guidance for accounting for defined benefit plans, such as the valuation allowance guidance, should be applied to the plan as a whole prior to determining a ~~government's~~ sponsor's portion. This may be particularly important when the portion is determined on an equitable basis, but not necessarily an equal (50:50) basis
- An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying ~~business~~ economic rationale for a JDBP. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. In the view of the Panel would not faithfully represent the underlying risks and rewards of the arrangement.
- The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting only to a portion of the plan they would have provided additional guidance as to how this should be performed.

Application to OTPP and OPSEPP

Commented [PO33]: This is the key point and should therefore be moved earlier.

Commented [LD34R33]: Done.

Commented [UK35]: I'm not sure I see the this is "particularly important" if 50/50

Commented [LD36R35]: I was trying to say that it is particularly important when not 50:50. However in this draft this sentence actually goes away as does not add anything to the argument in the new context.

Commented [PO37]: More importantly, the standard says "follow the DB guidance and then account for your potion".

Commented [LD38R37]: I attempted to add more words around this, but I don't think that the standard is that clear on this point so I struggled a bit with articulating it.

CONFIDENTIAL DRAFT

- The OTPP plan states that the risks [and rewards] are shared between employers and members on an equitable basis, which has historically been ~~on a~~ 50:50 when considered over the long term.
- The OPSEUPP plan indicates that any actuarial gains are allocated ~~to~~ between the employers and members on a 50:50 basis. Each sponsor can ~~and~~ then ~~this portion may be utilized by that party as they determine over time~~utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case. This means that the portion of any net asset that relates to the government's share may fluctuate as a percentage of the total net asset balance and may not result in the government having a 50% portion of the net asset at any one time.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition ~~within~~ in the financial statements.

2) Definition of an asset – Is there an economic resource

- Under PSAS, ~~an~~ assets are defined as "economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained".
- The resource in question is the accounting accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any ~~funding~~ surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations ~~may~~ use different actuarial methods and assumptions, such as a provision for adverse deviations. However, under accounting standards ~~it~~ any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. Notwithstanding there is a degree of measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation, PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires ~~that~~ such an asset ~~is~~ to be recognized for a single sponsored plan~~s~~. Consistent with the discussion in 1) above, for JDBP plans these requirements are still applicable and this asset should be considered in the context of the plan as a whole, prior to determining what portion of the asset (if

CONFIDENTIAL DRAFT

any) is the government's share. That is, there is no requirement for the amount of any asset to be precisely determinable under 3250 or any other standard.

- The ~~recognition of an~~ accrued benefit asset recognized for accounting purposes is then subject to the measurement provisions of the valuation allowance guidance (See section on "Measurement" below).

- In addition to the requirement of PS 3250 to recognize an accrued benefit asset, the Panel also noted the following guidance indicates that an accrued benefit asset in a JDBP represents an economic resource that gives rise to future economic benefits:
    - PSAS provides additional guidance on economic resources and future economic benefits in PS 3210, *Assets,* which is effective from April 1, 2017. An economic resource embodies value because it enables an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows. An accrued benefit asset in a pension plan is a resource because it can be used to generate future benefits. This view is confirmed by guidance in IPSAS~~B~~ 39.67
    - The economic resource (plan surplus for accounting purposes) can provide future economic benefits to the joint sponsors in the form of a reduction of cash outflows in the future because it can be used to reduce future contributions, as long as the sponsors are expected to be able to access those future contribution reductions (3210.04(a)). This view is confirmed by guidance in IPSAS~~B~~ 39.67
- In a joint defined benefit plan, the sponsors form a control group. When looking at whether the sponsors can access future contribution reductions or a withdrawal of surplus in meeting the asset definition for the plan as a whole the rights of the sponsors collectively should be considered.
- There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays ~~is the~~are the plan trust agreement and plan text; clear rights within the plan ~~text~~ documents can support the sponsor's right to withdraw surplus or take contribution holidays. ~~However,~~However, the law treats surplus withdrawals on a very different basis from contribution holidays.
- Surplus withdrawals are highly regulated by the PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case

Commented [LD39]: We discuss this access in detail a bit later on.
To consider flow and placement of support some more when drafting final report.
This thought is not quite well enough supported here.

Commented [LD40]: To Panel: In fleshing out the first section, I felt that these items did not fit well in the "nature of pension plans" section, so suggest moving them here as they relate to the recognition issues. However, would like feedback on whether this revised flow works or these should be moved back.

Commented [UK41R40]: I like it

CONFIDENTIAL DRAFT

that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitratoin procedures may also be utilized in some juriusdictions to determine an allocation of surplus. ~~when the plan text is not clear, there may be legal uncertainties as to whether the sponsor "owns" the surplus. Withdrawal of surplus by the sponsor is generally subject to regulatory and legal hurdles, such as either approval by the Financial Services Commission of Ontario approval~~accompanied by ~~with~~ ~~a court order, an arbitration award, or an agreement between employer and members for any surplus withdrawal~~?.?.. ~~Therefore under~~Under applicable case law and the PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed.~~ Unless there is a clear right in the plan text.~~

- Conversely, the PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, ~~if the plan text~~ a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus. ~~is not clear on the right of a sponsor to be able to reduce~~ contributions~~contributions~~~~Conversely, if the plan text is not clear on the right of a sponsor to be able to reduce contribution~~, ~~generally Canadian case law would support that the sponsor has the right and ability to utilize surplus through contribution holidays.~~
- An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors negotiate and agree on contribution rates. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. In the case of OTPP the government can benefit from the economic resource through the negotiation process over contributions required to make the actuarial valuation actuarially balanced. Similarly the government can benefit from any OPSEUPP asset through their

Commented [PO42]: True? I thought that contributions to the plan became trusteed assets and all withdrawals required approval.

Commented [LD43R42]: My misunderstanding – amended.

Commented [UK44]: I don't think this is correct – the plan text may be a necessary but insufficient requirement. In other words, it is possible that the plan text is abundantly clear, but the way the plan has been communicated to members, the trust has been set up, etc. may still prevent the employer from claiming the surplus. Murray to confirm.

Commented [LD45R44]: My misunderstanding - amended

CONFIDENTIAL DRAFT

ability to ~~bargain~~ utilize their allocated 50% of any actuarial ~~gains~~surplus to reduce contributions. .

- [SHOULD WE ADD A PARAGRAPH ON PAST HISTORY THAT CONFIRMS IN PRACTICE OUR ITNERPRETATION ABOVE – IE. THE PLAN SPONSORS HAVE BEEN ABLE TO BENEFIT FROM NAY GAINS/SURPLUSES IN THE PAST]

- PS 3320 applies to contingent assets which are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". ~~The implication of a~~A contingent asset is ~~that it is~~ not recognized in financial statements because there is uncertainty as to whether an asset exists. An accrued benefit asset is not an uncertain economic resource. While there is ~~measurement~~ uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making ~~a number of~~ actuarial assumptions regarding demographic and financial ~~actuarial assumptions~~factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomesbecomes~~become~~ clear as measurement uncertainty is resolved, not as future events occur or fail to occur. As such, PS 3320 is not a relevant source of guidance in considering whether an asset exists in respect of an accrued benefit asset.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

- The definition of an asset under PSAS requires ~~that~~ an economic resource ~~is~~ to be controlled by a Government. PS 3210.16 ~~expands on~~discusses the application of this control requirement noting that control exists when a

Commented [UK46]: Is bargaining required for this?

Commented [LD47R46]: No. My minsunderstanding – amended.

Commented [LD48]: Agree with this suggestion.

This really comes into the "expected" bit of future benefits which is a separate recognition criteria rather than definition of an asset. I have proposed a new, short section, relating to this in the recognition part.

Commented [MG49]: future events may increase or diminish the value of asset, but this, I expect, is irrelevant to the question of whether the asset exists and its value at a point in time.

Commented [LD50R49]: Valid point though to clarify why it is measurement uncertainty and not an existing condition that is confirmed. Have added in language.

CONFIDENTIAL DRAFT

government can benefit from economic resource, when they can deny or regulate access to the resource, and when they are exposed to risks associated with the economic resource.

- An accrued benefit asset in a joint defined benefit plan ~~still~~ meets the asset definition from the perspective of a joint sponsor as the joint sponsor is exposed to risks associated with the resource, since ~~as~~ they are exposed to risk of plan surplus changing from a ~~change~~ variation in actuarial assumptions~~.~~ or emerging plan experience.~~.~~ ~~The government~~Each sponsor may also regulate access to the resource because joint control means that ~~they~~ each must agree to any changes to the plan text or contractual arrangement and as such can deny the other sponsor access to the resource to the extent that joint decisions must be made over the use of the asset.
- As noted above in the case of OTPP and OPSEU the government can benefit from the economic resource.
- Shared control means that ~~there is control, but that~~ control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with. In the context of PS 3250, the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers ~~do~~ are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.
- By definition, a joint sponsor of a JDBP ~~does~~ cannotcannot~~not~~ have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process.~~,~~ ~~with~~ That process provides certainty that a conclusion on the use of any surplus will be reached ~~and~~ with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP.
- There are other examples in PSAS where joint control results in asset recognition. PS 3060 requires asset recognition for government ~~business~~ partnerships subject to shared control using the modified equity method. Similarly, PS 3060 requires proportionate consolidation for other government partnerships, which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public

Commented [MG51]: true for OTPP, but joint agreement not necessary for OPSEUPP

Commented [LD52R51]: Amended version does not specify this in respect of OPSEUPP

CONFIDENTIAL DRAFT

accounts.accountsaccount. The same logic that shared control can still result in asset recognition should apply to a pension asset of a JDBP.

- PS 3250 does require that there is an existing legally enforceable right to recognize an asset based on the withdrawal ofofwithdraw a surplus. This does not mean that there has to beis quite different from a legally enforceable right to reduce contributions to the plan in the future. in order to have control of the economic resource. Under pension law, withdrawal of pension surplus have has different legal characteristics from contribution holidays. The formerThe former is typically legally uncertain and is regulated by the PBA. Surplus withdrawals require regulatory consent and either a Court order confirming surplus entitlement or a negotiated agreement with employees and retirees. requires that assets already paid into a trust and for which no claim is clearly retained in the plan document, is reclaimed?.?.. The latter, which is also a form of economic benefit, is permitted under the PBA and rarely limited by plan documents. It requires that assets are not paid into a trust in the future and that the existing claim on those assets is not given up by the sponsor.?.?. This is a distinction established in law, and in the view of the Panel, the requirements of PS 3250 paragraph 59 are intended to be applied to the more complex legal context of surplus withdrawal, rather than a broader context of contribution holidays.
- The economic benefit from any plan surplus can be derived either as a contribution holiday or as surplus assets withdrawn from the plan. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the Panel agreed with the Province and the AG that the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately). However, it is clear both from the plans' documents, as well as from actual practice, that the contribution reductions are available to plan sponsors. While the Panel is of the view that 3250.59 speaks directly to surplus withdrawal only, even if the requirements of that paragraph were to be applied to contribution reductions, the conditions would be met since the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can still be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize an asset relating to their portion of that jointly controlled asset.

Commented [UK53]: I think this should be rephrased. As written, we are back in the "two separate plans" paradigm, rather than "one plan with joint sponsors".

I have included a paragraph below that might be helpful.

Commented [LD54R53]: Amended

CONFIDENTIAL DRAFT

Panel View - Recognition

PS 3250 requires the *recognition* of an asset for the government's portion of the plan surplus for both plans.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

- A primary source of GAAP should apply if it exists. PS 3250 paras 50-59 provide~~s~~ guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. As the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan, the valuation guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portion~~s~~portion~~s~~~~portion~~ of the result.
- If applying the guidance in PS 3250 results in an amount of an accrued benefit asset for the plan after a valuation allowance has been applied, if necessary, then by definition this amount equates to the expected future benefit that the sponsors can access in the plan and its portion would be eligible for asset recognition in the books of the joint sponsor.
- PS 3250 defines an accrued benefit asset as "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)."
- Accrued benefit asset is adjusted for ~~any~~ net unamortized losses~~, if any~~, before testing for the valuation allowance to give the adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will ~~unwind~~ reduce the accrued benefit asset automatically over time~~time~~~~overtime~~ based on the accounting model in PS 3250. No adjustment is made for net unamortized gains as these would only increase the accrued benefit asset. In the case of OTPP and

Commented [UK55]: Consider breaking up an polishing. Very difficult to understand right now.

Commented [LD56R55]: Have moved this bit to the "recognition" section for flow and cleaned it up.

CONFIDENTIAL DRAFT

OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

- PS 3250 requires ~~that~~ the expected future benefit ~~is~~ to be compared to the adjusted benefit asset
- PS 3250 specifies how the expected future benefit is to be calculated:
  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.

Commented [PM57]: Added indent

1) Impact of legally enforceable rights on calculation of expected future benefit amount

- PS 3250 ~~uses the phrase~~refers to "expected future benefits". ~~This language indicates that future benefits only have to be expected, they do not have to be certain.~~ . Under the standard there are two ways that expected future benefits may be realized – through the withdrawal ~~of~~of~~or~~ surplus or through using the surplus to ~~fund~~ pay for ~~the expense of~~ benefits earned by members in future periodsperiods~~period~~ – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".
- The panel did not put any emphasis on expected future benefitsbenefits~~benefit~~ arising from withdrawal of plan ~~surplus~~assets, as the Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. In fact OPSEUPP explicitly states that the ~~sponsors~~ employers are not entitled to have any surplus paid out of the plan, and ~~both OTPP and~~ OPSEUPP ~~plans~~ statess~~state~~ that upon wind up any surplus must be used to the benefit of members. ~~–~~ (18.3 of the OPSEUPP text) while the OTPP is silent in regard to surplus on wind-up (s.118a of OTPP Plan text). .
- PS 3250 paragraph 52 notes that the expected future benefits may be ~~impacted~~ affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an ~~explicit~~ requirement~~restriction in the plan text~~enduring promise from an employer requiring that ~~employers must~~it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the ~~government's~~ employer's ~~entitlement~~ ability to benefit fully from future reductions in contributions. However, in the OTPP there is no such restriction.

Commented [PO58]: Emphasize that this is the same language used in the definition of any asset.

Commented [LD59R58]: Have added in new "recognition criteria" section, which I think emphasizes this.

Commented [UK60]: I don't think this sentence is helpful. Again, we are not arguing for a lower standard to recognize assets under two separate plans, rather we are arguing that the joint sponsors have a clear right to benefit from a surplus under a JDBP. The "expected" part, in my mind, refers to measurement.

Commented [LD61R60]: Removed. Concept tied to Section 1000 criteria in new recognition section

Commented [UK62]: Is this true for OTPP? If so, it would seem to violate 50/50 sharing.

Commented [LD63R62]: In light of various changes this sentence has been removed anyway for flow. Panel to consider if this is an issue that should be addressed somewhere.

CONFIDENTIAL DRAFT

The government'sgovernment'sgovernment ~~match to members'~~ contribution~~s~~ required by the Teachers' Pension Act is limited to a maximum of the members'members'~~members~~ contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. The plan sponsors' contributions can be reduced or eliminated. Similarly, for OPSEUPP the plan text agreed to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions.~~the exercise of shared control with the other joint sponsor.~~ It should also be noted that contributions would be matched if both employer and employee contributions were reduced. This is clearly contemplated in the OTPP FMP as both are currently contributing in excess of the normal "run rate" for contributions.the exercise of shared control with the other joint sponsor, including reducing them to 0%.~~.~~

- Ultimately, all the decisions regarding plan contributions and plan benefits rest~~s~~ with the joint sponsors and there are no legal uncertainties regarding the sponsors'sponsors'~~sponsors~~ rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.
- PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) and not to the amounts calculated in accordance with 56 (a) amounts. Each sentence in paragraph 59, ~~excluding~~ other than the last sentence, ~~in paragraph 59~~ specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text~~s~~ of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus - these are two separate concepts.
- The last sentence in paragraph 59 ~~does~~ refersrefers~~refer~~ to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or ~~provide the~~establish a process ~~on~~ governing~~to~~ how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. T~~t~~here is no ~~requirement~~ need to change~~s~~ the ~~existing allocation of surplus or the~~ existing rights within the contractual arrangement in order for the government joint sponsor ~~to use their~~ its ~~existing rights under the shared control arrangement to~~ to negotiate an expected

CONFIDENTIAL DRAFT

future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. A changeHowever, as noted above, the Panel is of the view that even if the requirements of paragraph 59 were to the plan documentsbe applied to the contribution reductions, the joint plans sponsors would be needed to alter this arrangement and would affect the accounting when it became effective.meet the requirements jointly.

- Any change to the plan documents would be needed to alter ~~this~~these arrangements and would affect the accounting when it became effective.

Panel View

- A joint sponsor does not ~~have to have~~require a unilateral legally enforceable right to reduce future contributions at the balance sheet date ~~to~~to~~to~~ and have an expected future benefit under paragraph 56 (a). A reasonable expectation of an "expected" future benefit, based on the plan structure and documentationThe sponsors jointly must have such right, and reflecting the plan's history, is, in the Panel's judgment, an appropriate basis for an expected future benefit. case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

- PS 3250 provides ~~further~~ guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.
- Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group-, which ~~is the idea~~assumes that the current number of employees will exist ~~for~~ in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless ~~there is an expected~~a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.
- The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be~~en~~ included in the calculation, if they are not already taken into account in the expected return of assets rate.
- The Panel suggests that the Province might consider to what extent the expenses paid out of the plansplans~~plan~~ could be ~~added to~~ included in the determination of the economic benefit.

Commented [PM64]: Panel View?

Commented [LD65R64]: Yep.

CONFIDENTIAL DRAFT

3) What are the "minimum contributions the government is required to make regardless of any surplus"

- The objective of the test in paragraph 56 (a) is to determine whether a sponsor will be able to obtain expected future benefit from an existing surplus~~,~~ by reducing ~~their~~ its contributions below the expected cost of benefits for future services to be provided under the plan.
- The purpose of the minimum contributions test is to determine whether ~~there are~~ requirements exist that would ~~make~~ require a sponsor to continue to make ~~contribution~~scontributionscontribute~~ioncontribution~~ ~~cash~~ at a certain level, even when there are plan surpluses on funding basis, and thus make it impossible for the sponsor to obtain a reduction in ~~cash~~ contributions to the plan.
- For a single sponsor plan, common practice in Canada under pension legislation is to consider that the sponsor can take a contribution holiday unless ~~they have~~it has made a commitment to match the contributions of the members or make a fixed level of contributions regardless of any surplus in the plan~~.~~, or if there are other requirements that would force the plan sponsors to continue contributing to the plan even though the surplus was present.~~.~~ The Panel concludedsconcludedsconcludes that~~, following the guidance in PS 3250 that the plan is accounted for as a whole using the Defined Benefit guidance and then the government picks up its portion of the plan, a similar logic should apply to JDBPs~~ – the joint sponsors can take a contribution holiday since there are no restrictions as to the contribution reductions~~, unless they have made a commitment to match the contributions of the members regardless of any surplus in the plan~~.
- A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The panel understands that in practice actuaries interpret this ~~in practice~~ to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be ~~minimum contributions~~" minimum contributions the government is required to make regardless of any surplus".~~.~~
- There is also a question as to whether a joint sponsor can ~~create~~ impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels~~.~~, ~~t~~Therefore,,~~, therefore~~ absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements. Equal reduced contributions for both members and employers benefit both joint sponsors

CONFIDENTIAL DRAFT

Commented [UK66]: Great point!

Commented [LD67R66]: Thanks Uros!

Commented [PM68]: Does it help clarify with a new bullet that addresses funding vs. accounting actuarial valuations? It is normal for a pension plan to build a surplus position that provides stability.

Commented [LD69R68]: Yes. Should have been captured in the asset "economic resource" discussion in Recognition – 2.

- It is relevant to note that, as OTPP always requires that an actuarially balanced valuation ~~allowance to~~ be filed for regulatory purposes, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation, as this must occur only once every three years. However, the joint sponsors ~~can~~ may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan ~~text~~ if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus",~~,~~ as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no surplus that is anticipated by OTPP FMP. They can agree to any level of contributions as long as the result is~~n~~is~~nin~~ actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. ~~While it might be expected that some level of contributions will be made in the future to fund the benefits cost of future services, there is no method of~~ for ~~determining under the contractual arrangements what this would be, given that the level is subject to negotiation and must be negotiated. As such the "minimum contributions" cannot be determined.~~
- Similarly, for OPSEUPP the stabilization reserves act as limits~~limits~~~~limit~~ on the amount of funding surplus that accrues~~d~~accrues~~d~~~~accrued~~ in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the ~~joint~~ sponsors~~sponsor~~. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions.

- The Panel noted that a number of ~~calculation~~s~~calculation~~~~calculation~~calculations regarding the expected future benefit for both OTPP and OPSEU were made, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions ~~as~~ equal to the currently agreed upon contributions until certain ~~limited~~ limitations on contributions under the Income Tax Act would be expected to ~~kick in~~. The Panel view is that in case of OTPP and OPSEU, there are no "minimum contributions regardless of any surplus".become effective. ~~These~~

Commented [UK70]: Not needed – just muddies the issue.

Commented [LD71R70]: removed

Commented [PM72]: Not sure this is clear in saying that there is no minimum floor for pension plan contributions. i.e. amount can go to zero.

Commented [LD73R72]: removed

Commented [PM74]: Panel View?

Commented [LD75R74]: Yes! Moved.

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~~various views exist because the standard does not currently provide clear guidance on how to apply the definition of "minimum contributions regardless of any surplus".~~

- If no expected future benefit to ~~Gov't~~ Government sponsor, then is also no expected future benefit to joint sponsor. Does this make sense? Is this consistent with public expectations and expectations of the other sponsor?

Panel view - Measurement

- Based on the analysis of the plan arrangements for OTPP and OPSEUPP, there are no ~~the level of~~ minimum contributions required regardless of any surplus. ~~is lower than t~~The~~the~~ present value of expected future accruals for service for the current number of active employees. This conclusion holds true for all scenarios identified above. ~~All things being equal this~~ creates sufficient economic benefit~~headroom~~ that could support the recognition of ~~an amount in respect of~~ the net pension asset of OTPP and OPSEUPP?.?.~~.~~
- ~~Recommendations to province – be mindful that if have a funding surplus and have a legal requirement to continue to contribute could be minimum contributions.~~

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint defined benefit plans

- The Panel notes that the standard ~~is not clear~~would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

- In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding

Commented [UK76]: Yes

Commented [LD77R76]: Enhanced in recognition – 2 section.

Commented [PO78]: Other than one negotiated with the other sponsor? If the sponsors agree to increase the surplus, like OTPP, to create stabilization and adverse deviation reserves, are those minimum contributions that affect the calculation?

Commented [LD79R78]: removed

Commented [MG80]: At best, an agreement to make contributions at a specified level is an agreement that binds the partners until the partners decide to change it. Isn't this the real test for 'minimum contributions': are there minimum contributions that the sponsors are required to make due to legal or other factors beyond their joint control? If the sponsors can change the contribution level at any time

Commented [LD81R80]: Removed.

Commented [UK82]: I don't think we need this, as it's not currently in play or contemplated.

Commented [LD83R82]: Removed

Commented [PM84]: Sentence structure?

Commented [LD85R84]: removed

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including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity ~~over~~ about whether minimum contributions may be ~~made~~ required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or is a funding liability. There is some difficulty in determining what are minimum contributions in the context of joint DB plans when future contributions are dependent on the funded status of the plan and negotiation.

- For example, should the minimum contributions test be based on accounting surplus or funding surplus? Is it a present surplus or can it be a projected future surplus? Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans [and single sponsor plans? yes].].~~?].~~

Deferral accounting

- In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that despite the the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the ~~-~~public interest. and transparency would suggest that it is important to recognize all liabilities or assets that exist and not to recognize assets where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns should ensure that these do not result in lack of transparency on the balance sheet. [Reference to IPSAS 39]

Discount rates

- The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector a sponsor borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An

Commented [MG86]: doesn't this same difficulty arise in single employer sponsored DB plans, since the discrepancy between funding and accounting valuations occurs in any DB arrangement?

Commented [LD87R86]: Added wording to reflect

Commented [UK88]: Should we also bring the notion of "additional liability" as per IFRIC 14? One could get into this interpretation anyway if the words "regardless of any surplus" were interpreted as accounting surplus. SO perhaps clarity that this is not intended would be good.

Commented [LD89R88]: Have added comment to emphasize that looking at issues is relevant.

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appropriate asset return rate will vary depending on how assets are invested. The discount rates used by public sector entities ~~may~~ is also likely to be different tha~~e~~nthae~~n~~t~~hen~~ the discount rates used in the Plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantlysignificantly~~significant~~ different measurements of accrued benefit obligations for the same plan in different financial statements. This inconsistency ~~could be~~is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The panel suggests that the Employment Benefit Task Force consider whether the method intended to be 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.

Commented [UK90]: This seems pretty specific and directional…

Commented [LD91R90]: I think it is intended to be specific. The current wording is not intended to say what the answer is, but that it should be considered. Open to suggestions if you find the wording too strong.

Funding valuation

- As a funding valuation may result in a funding surplus or deficit that is very different ~~than~~ from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.
- The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.
- The Panel suggests that a disclosure highlighting the quantitative differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

Commented [PM92]: I am ok with disclosure of additional information. I do not wish to impose an accounting analysis to evaluation the differences between actuarial funding and accounting valuations.

Commented [LD93R92]: Have scaled back a bit. Is this better?

IN ADDITION, I THINK IT WOULD BE USEFUL TO INCLUDE THE FOLLOWING (LUCY TO DECIDE ON PLACEMENT AS THE NEXT VERSION IS BEING DRAFTED):

Commented [LD94]: I think all of these thoughts are captured elsewhere in the document now, largely in Section recognition – 2 and in the enhanced accounting discussion.

- WE NEED A "PLAIN ENGLISH" SECTION. HERE ARE SOME THOUGHTS:

  Both OTPP and OPSEU are joint defined benefit plans, meaning that the joint sponsors (the Province and the OTF/OPSEU) share in risks and costs of the plans equitably. The plans are funded under a separate regimes, which are often deliberately conservative, in order to

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protect the plans' funded status in case of poor performance. Therefore, it is not surprising that these plans would show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional funding that was made to the plans therefore show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

It is therefore reasonable to expect that the plan sponsors should be able to benefit from lower contribution levels in the future, if the plans indeed find themselves with surplus assets. While the Ontario taxpayers (or teachers/OPSEU members) may not expect refund cheques to be issued from these plans, it would be reasonable for them to expect that fewer contributions will need to be made into these plans if there are surplus assets in them. Conversely, all parties would similarly expect that additional contributions will need to be made should deficits emerge.

Indeed, there are established mechanisms by which these expectations can be put into practice. In fact, plans histories show examples of where plan sponsors have benefitted from gains / surpluses in these plans. It is therefore reasonable to expect that the surplus assets in these plans will benefit the joint sponsors in the future as well. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the plan sponsors can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize those on the balance sheet of the Province. And given the 50/50% sharing of the JDBPs, 50% would be a reasonable share of the asset to recognize.

- PARAGRAPH ON ACCOUITNING NEEDING TO BE BEST-ESTIAMTE, NOT "CONSERVATIVE" – THIS IS SOMETHING THAT CAME OUT OF OUR MEETING ON FRIDAY. I SUSPECT TRICIA WILL WRITE SOMETHING UP ON THIS
- DO WE NEED A PARAGPRAPH TO RECONCILIE FUNDING VS. ACCOUNTING (BEYOND WHAT I WROTE ABOVE)?
- PARAGRAPH TO OBSERVE THAT AG'S VIEW WOULD LEAD TO A CONCLUSION THAT NO JDBP COULD EVER RECORD AN ASSET BY DEFINITION
- PARAGRAPH TO OBSERVE THAT IF WE ACCEPTED AG'S VIEW THAT THE PROVINCE IS ON THE HOOK FOR DEFICITS, BUT HAS NO ACCESS TO SURPLUS WOULD RESULT IN JDBP CLASSIFICATION BEING INCORRECT.
- PARAGRAPH ON OPSEU ADJUSTMENTS FOR SURPLUS ALREADY USED UP

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OP Trust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

IPSASB 39. 67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

Appendix C

- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

Commented [NT95]: o/s need to understand why the AG referred to these – is there a concern that we need to address that we have not yet.

Commented [LD96R95]: Have deleted this because it did not seem to be very relevant.

I think Panel should be cautious of commenting on other's accounting when this is outside of the mandate of the panel and it is not necessary to support the views that the Panel is making.

CONFIDENTIAL DRAFT

10 - PENSION ASSET EXPERT ADVISORY PANEL Compare Dec 31 to Jan 11.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for ~~a~~ joint defined benefit ~~plan~~plans
- 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~~Employment 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.

The Panel ~~looked at~~reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans~~") and~~"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans.

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Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

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All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that ~~shape~~affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements ~~are~~were used ~~for assessing~~to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA~~") in Ontario),~~")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans~~, as~~, the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also ~~several~~similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key ~~characteristic~~feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- ~~o~~ Funding contributions are shared mutually between the government and plan members [PS 3250.80]
- ~~o~~ The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan [PS 3250.80]
- ~~o~~ The sponsors share, on an equitable basis, the significant risks and benefits, ~~both positive and negative,~~ associated with the benefit plan~~.~~ [Based on PS 3250.82 and PS 3250.GLOSSARY]. The government does not retain the residual risks of the plan. [PS 3250.80]

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By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor ~~defined benefit plans~~ and joint sponsor defined benefit plans is that the ~~ability~~unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors (or more) that must work together ~~instead of one sponsor.~~. The sharing of the risks and benefits of the pension plan on an equitable basis is ~~commensurate with~~a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was ~~converted~~changed to ~~be~~a jointly sponsored arrangement, and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The ~~motivation for making~~ Panel understands that the essence of these changes was ~~for~~that the Ontario Provincial Government ~~to transfer~~transferred a share of the risks and costs of the obligation to the members of the ~~plans~~Plans. In exchange ~~for taking on a share of the risk and cost of the obligation~~, the members received an equitable share of any surplus in ~~the plan~~their Plan (both the upside and downside of plan performance are equitably shared~~) and~~). In addition, the member Sponsors received the right to participate in shared control of ~~the plan, meaning that the arrangement contemplates~~their Plan. The arrangements contemplate ongoing discussions between the ~~sponsoring parties~~Sponsors of each Plan and joint decision-making about issues ~~decisions~~ such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding ~~risk~~risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from ~~a~~ single sponsored ~~plan~~plans to a jointly sponsored ~~plan~~plans was considered ~~by all parties~~ to be a fair and equitable arrangement ~~for both sides~~by all parties.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

Commented [LD2]: MG's comments: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

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The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors~~.~~ and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' ~~Partners~~Partners' Committee, to which an equal number of representatives ~~are~~is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made ~~typically~~ on ~~a~~an approximate 50~~:~~/50 basis between employers and members (except ~~where~~when specifically agreed otherwise).

~~A~~Currently, a limited exception to the matching contribution provisions ~~also~~nevertheless reflects the sharing principle underlying the OTPP~~. In~~; in the event that OTPP does not pay conditional indexation benefits ~~are not paid by the OTPP~~ in a year, the amount of ~~this~~that benefit reduction is matched by a ~~corresponding~~ contribution from OTPP employers~~,~~ known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be ~~prepared~~filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" ~~which means~~ that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, ~~including~~plus the present value of the members' and employers' future contributions ~~plus~~and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based

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on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced ~~as defined above~~, the joint sponsors must negotiate and agree on what changes to the plan ~~must~~will be made in order to reach an actuarially balanced valuation ~~that will subsequently~~to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors ~~could~~can agree to Plan changes ~~to the Plan to~~that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary ~~a board of~~the issue goes to binding arbitration. However, under the Partners' Agreement, ~~agreement~~a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in filing an ~~imbalance between the promised benefits and~~ actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve ~~and the plan assets, including the value of future contributions.~~.

The joint sponsors have ~~agreed to~~implemented a Funding Management Policy (FMP) ~~to supplement~~as part of the Partners' Agreement, which sets ~~a~~out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~that once the OTPP meets certain funding thresholds,~~ the Partners ~~must~~to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two~~).~~) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when ~~changing~~ benefits or contributions will be ~~taken~~changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners ~~and must be on an equitable basis (consistent with the definition of a JDBP).~~.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. ~~There is~~Contribution levels can be negotiated with no minimum level or fixed range of contributions by members or employers that ~~cannot~~must be ~~changed through~~adhered to in the ~~negotiations~~negotiating process.

Commented [LD3]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

CONFIDENTIAL DRAFT

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees ~~are~~is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one ~~Trustees~~Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, ~~as~~ agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the ~~OPSEU Pension Fund.~~assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the ~~plan~~Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the ~~plan~~Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the ~~sponsors~~Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the ~~sponsors~~Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

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In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, ~~those net actuarial gains are~~that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. ~~Through collective bargaining, an~~An allocation of funding surpluses ~~on a basis that is~~ different from a 50/50 basis may be agreed~~.~~ upon through collective bargaining. The Panel ~~understand~~understands that currently ~~no different basis of allocating~~ funding surpluses ~~has been agreed~~are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal ~~costs and~~contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion~~,~~. Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada)*. The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's ~~sponsors~~Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. ~~There are no restrictions on how each party bargains the~~Each party's use of ~~their~~its surplus~~. There~~ is ~~no~~unrestricted. No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective ~~surplus portions~~RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce ~~their~~its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not ~~treated as~~considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General ~~(AG)~~ also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Commented [LD4]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

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Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

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The relevant accounting framework used as the basis for analysis is ~~performed in accordance with~~ Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government ~~must follow~~follows any specific standard that relates to the issue under consideration, that is, ~~to apply~~it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS- 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS- 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted ~~and as such~~. Consequently, they are currently valid sources of reference as they ~~were developed to be~~are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS- 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement*

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Objectives and are ~~consistent with PS 1000 concepts. They are~~ therefore a relevant source of guidance when determining appropriate accounting policies.

In ~~considering~~addition to guidance found in PS 3250, a primary sources of GAAP, relating to the recognition and measurement issues addressed in this report, the Panel considered ~~both~~ the concepts in PS 1000 ~~and~~, the objectives of financial statements in PS 1150~~, as well as~~ and relevant guidance issued by other standard setters~~, and~~,. The Panel was particularly ~~were~~ guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

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Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

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The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, ~~it~~the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality ~~at the time they are included in those statements~~.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

CONFIDENTIAL DRAFT

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the ~~entity~~government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that ~~it~~the information is without purpose or that it will not influence ~~behavior~~behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- **What ~~place~~does "conservatism~~?~~" mean and how should it be applied?**

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the ~~new~~2010 version of its Framework ~~in 2010~~, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

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(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for ~~asymmetrical~~asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

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Faithful representation and the need for useful information ~~entails~~demands that only items ~~that meet~~meeting the definition of an asset under PSAS should be recognized in the financial statements.

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As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. ~~This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]~~

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to ~~assess~~apply the conceptual definition of an asset, including control, economic benefit and risk concepts to ~~that of~~ a pension asset which typically exists in a separate vehicle~~, a trust,~~ from the sponsors. IPSAS 39.67 notes that~~:~~:

- an asset exists when a plan has been overfunded or ~~where~~when actuarial gains have arisen (i.e. when there is a surplus for accounting purposes~~), and that~~
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund~~, either directly to the entity or indirectly to another plan in deficit.~~. The asset ceiling is the present value of those future benefits.

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- Control is ~~as~~ a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

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The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. ~~The~~This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as ~~a provision~~provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus ~~calculated for~~determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses ~~due to the deferral provisions~~ and the measurement uncertainty ~~regarding~~inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following ~~recognition~~ criteria for recognizing assets in the financial statements:

a) ~~That the item~~it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) ~~For an items that involved obtaining or giving up future economic benefits,~~ it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second ~~criteria~~criterion requires ~~that~~ future economic benefits ~~are~~to be *expected* ~~but do~~ not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can ~~be~~ reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 ~~provides an~~specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also ~~requires~~assists a net pension asset to meet the general recognition ~~criteria~~criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

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Panel ~~View~~Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 ~~Paragraph~~ 81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is ~~a critical~~an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then ~~applying the~~ determining whether any valuation allowance ~~to~~is required for any net accrued benefit asset that arises. Both the Ontario Provincial

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Government and ~~AG~~Auditor General seem to implicitly adopt this view in their ~~analysis~~analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. ~~As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners' agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members' service and earnings are also measured as a whole, and not split between different sponsors.~~ A determination of the assets and the obligations of a defined benefit plan can ~~only~~ be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "~~Limit guidance~~Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. ~~The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.~~As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared

Commented [LD5]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

CONFIDENTIAL DRAFT

on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that ~~generally~~ defined benefit plan accounting in financial statements ~~is based on a *net* amount of plan~~reflects the plan's accounting surplus or deficit. The plan's assets ~~less accrued benefit~~ and obligations~~. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities"~~ are those of the ~~sponsor, these are presented as a net asset or liability, which reflects that the plan is a~~ separate entity~~.~~, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is ~~more~~ similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan ~~than to a proportionate consolidation accounting.~~. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and ~~OPSEPP~~OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then ~~utilize~~use its allocated portion as it unilaterally determines. This means that members and employers ~~could utilize~~can use their gains at different times, as historically has been the case ~~resulting in~~. The result is that the portion of the plan net asset that relates to the government's share ~~fluctuating~~fluctuates as a percentage of the total net asset balance. ~~As a result~~Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any ~~one~~ time, when determining what ~~their~~its share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's

Commented [PO6]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

Commented [LD7R6]: To discuss –Propose deletion.

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portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine ~~what~~ its share of the net pension asset of OPSUEPP ~~is~~, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

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As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource ~~of~~that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource ~~to~~of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis ~~(~~, i.e., there is an accrued benefit asset~~,~~ (net of any valuation allowance – see Section [x – measurement]), ~~then a~~each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and ~~rewards~~benefits is a basic tenet of JDBP accounting.

~~Notwithstanding that the above~~Ability to benefit

This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the ~~plan~~Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its

CONFIDENTIAL DRAFT

share of the economic resource in each of the Plans and thus ~~meeting~~meet this part of the asset definition ~~of an asset~~.

Consistent with PS 3250.052, ~~there are two ways that~~ a sponsor can benefit from a pension surplus ~~withdrawal of~~in two ways:

- withdrawing the surplus ~~which involves~~, taking cash out of the plan ~~(~~, resulting in a cash inflow for the sponsor~~),~~, or ~~contribution holidays, which involves~~
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor~~).~~ .

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor ~~to~~ either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text~~; clear~~. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since ~~OPSEU~~OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

CONFIDENTIAL DRAFT

~~Based on the above considerations~~Consequently, the Panel ~~determined~~concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus~~. It is generally the case that the~~ or otherwise. The plan actuary may take surplus into account in determining the required level of employer contributions~~; the~~. The plan actuary is ~~only~~ prohibited from doing so ~~where~~only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively ~~funded~~managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. ~~As~~Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations~~" and .~~" They are intended to provide an estimate of the most likely outcome and are not designed to ~~be overly conservative as this would not result in a faithful representation of the asset or liability of~~measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these ~~plans~~Plans to the extent ~~there are~~they hold more assets ~~that~~than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation ~~on their side~~ that they can ~~access~~benefit from their portion of any surplus assets~~.~~ to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither ~~joint~~ sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the ~~principles of a JDBP and the~~ equitable sharing objectives that are consistent with the OTPP and ~~OPSEU~~OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared ~~by both sponsors~~ for the benefit of both sponsors.

An analysis of the plan documents for OTPP and ~~OPSEU~~OPSEUPP indicate that ~~in both plans~~ the sponsors fund ~~the plans~~both Plans on an equitable basis and ~~therefore~~

Commented [PO8]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [LD9R8]: To discuss with Panel Interplay with funding regulations?
MG input

Commented [PO10]: Uros – true?

Commented [LD11R10]: To discuss at Panel

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both ~~joint~~ sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can ~~only~~ accrue only to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only ~~to~~ one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset considerations

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset ~~due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets,~~ there is no uncertainty as to whether the plan exists, and therefore ~~over~~about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. ~~There are no~~No future events are needed to clarify whether the service was provided by the employees or ~~not or~~ whether the plan assets were contributed ~~or not.~~ . Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Commented [LD12]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

Commented [LD13]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

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Panel view

The ~~accounting~~accrued benefit asset meets the definition of an economic resource because ~~the accrued benefit asset~~ it exists and future benefit is available to the sponsors in accordance with the ~~plan~~Plan documents. There is no ~~existence~~ uncertainty regarding the existence or potential benefit of the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource ~~must be controlled by a government~~ for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP ~~which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan~~. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with ~~and any~~. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect ~~of this~~ is that each sponsor individually has a veto right for fundamental changes to the Plan or ~~shared~~ decisions that are made under the existing Plan arrangements. ~~This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or~~As a result, each sponsor can deny the other sponsor access to ~~the~~a plan ~~assets~~surplus and ~~therefore cannot~~gives it control ~~access to~~in accordance with the ~~economic resource~~definition of ~~a net plan~~an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus~~, as equitable sharing is a key characteristic of a JDBP.~~. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. ~~The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors.~~ Each joint sponsor has the ability to protect its own equitable

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share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the ~~joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the~~ ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. ~~This means that collectively~~Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control ~~elements~~element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the ~~capital~~ assets held under joint control~~, for example,~~ even though the government cannot control the use of ~~that asset~~those assets unilaterally.

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that ~~no investments~~governments could not recognize their proportionate interests in ~~government~~ partnerships ~~could be recognized~~. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of ~~a~~the portion of ~~an~~a jointly controlled asset ~~that is under shared control.~~. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition, which would be inconsistent with the guidance in PS 3250 to account for a JDBP using the guidance for defined benefit plans, which includes guidance on the recognition of accrued benefit assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan~~, and then the members of control group each pick up their share~~ as a whole, and then the sponsors sharing control group each recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the

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timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

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Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize ~~their~~its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

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In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses ~~as~~has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While ~~there is no certainty as to~~ the form of future benefit ~~that~~will be determined by joint sponsors' preferences and priorities at the time of future negotiations ~~will take~~, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past ~~and~~. This supports an expectation that ~~they~~it would be able to do so in the future, given ~~their~~its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism ~~also supports~~provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to ~~supports~~support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

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~~Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both ~~plans~~Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for ~~their~~its portion of a net asset which represents a ~~true~~ economic resource, would not faithfully represent the ~~economics~~economic substance of a JDBP whereby the risks and ~~rewards~~benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

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Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are ~~measured at an amount~~ greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "~~Limit guidance~~Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1~~]~~], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The ~~Limit guidance~~Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, ~~and~~ so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

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b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which ~~is recorded against~~reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the ~~Limit guidance~~Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] ~~Under~~As previously discussed, the standard ~~there are~~identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through ~~using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".~~ reduced contributions.

~~The Panel~~As the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets~~, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above.~~. PS 3250 ~~paragraph 59~~.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last ~~sentence~~one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is ~~not the same as~~significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, in the Panel's view it ~~would~~is not ~~be~~ appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing ~~how to agree upon~~decisions

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Commented [LD14]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

about the allocation of surplus on an equitable basis. ~~In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration.~~ There is no need to change the existing rights within the contractual ~~arrangement~~arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to ~~negotiate~~obtain an expected future benefit. ~~In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools.~~ Consistent with ~~this~~the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or ~~where~~when there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

~~In the OTPP there is no~~No such restriction exists in the OTPP. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors ~~and~~, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text ~~agrees to~~specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

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Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under ~~this~~the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS~~,~~ unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes~~,~~ that, in addition to the expected future ~~accrual~~accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires ~~that~~ minimum contributions that the government is required to make regardless of any surplus ~~are~~to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when

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there are plan surpluses on funding basis, it would be impossible for the sponsor to ~~obtain~~benefit from a reduction in contributions to the plan~~ and therefore there would be no expected future benefit that could be obtained through a contribution holiday~~.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to ~~take contribution reductions~~reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus~~ and not accounting surplus, and that if~~. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP ~~Partners~~Partners' Agreement requires ~~that~~ any valuation filed for regulatory purposes ~~must~~to be ~~an~~ "actuarially balanced~~" valuation, there is~~", no funding surplus ~~that arises, as any preliminary~~ will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process~~. A funding surplus could arise prior to~~ before the ~~mandatory filing of the next actuarially balanced funding~~final valuation ~~which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan.~~ is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be ~~agreed upon~~made by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, ~~there is also~~ no ~~ultimate~~ funding surplus ~~that~~ is anticipated by the OTPP. ~~They~~The sponsors can agree to any level of contributions as long as the result is actuarially balanced~~ and~~ so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend

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upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

~~There is also a question as to whether~~It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what ~~were~~ the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective~~.~~. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for OTPP beyond the next actuarial filingfor either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

Commented [PO15]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD16R15]: Edits to be made/discussed

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The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, ~~if~~when the present value of expected future accruals for service for the current number of active employees~~-~~, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance ~~would be~~is required. The Ontario Provincial Government ~~would recognize~~Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset ~~in the Public Accounts~~.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [LD17]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

Commented [LD18]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

To discuss at Panel.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making ~~over~~about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or ~~liability~~obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

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Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized ~~on~~in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms ~~used~~proposed to deal with potential income ~~statement~~ volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that ~~these~~they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different ~~than~~from the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require ~~that~~ the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Commented [LD19]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD20]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

CONFIDENTIAL DRAFT

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

~~IPSASB~~IPSAS 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

10 - PENSION ASSET EXPERT ADVISORY PANEL Draft report January 11.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

CONFIDENTIAL DRAFT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members [PS 3250.80]
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan [PS 3250.80]
- The sponsors share, on an equitable basis, the significant risks and benefits, associated with the benefit plan [Based on PS 3250.82 and PS 3250.GLOSSARY]. The government does not retain the residual risks of the plan. [PS 3250.80]

CONFIDENTIAL DRAFT

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors (or more) that must work together. The sharing of the risks and benefits of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement, and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

Commented [LD2]: MG's comments: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan (both the upside and downside of plan performance are equitably shared). In addition, the member Sponsors received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from single sponsored plans to a jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners'

CONFIDENTIAL DRAFT

Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members (except when specifically agreed otherwise).

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP; in the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

CONFIDENTIAL DRAFT

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in filing an actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve.

Commented [LD3]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Partners to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated with no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

CONFIDENTIAL DRAFT

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion. Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust

Commented [LD4]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

CONFIDENTIAL DRAFT

Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government follows any specific standard that relates to the issue under consideration, that is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically

CONFIDENTIAL DRAFT

addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are currently valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are therefore a relevant source of guidance when determining appropriate accounting policies.

In addition to guidance found in PS 3250, a primary sources of GAAP, relating to the recognition and measurement issues addressed in this report, the Panel considered the concepts in PS 1000, the objectives of financial statements in PS 1150 and relevant guidance issued by other standard setters,. The Panel was particularly guided by the following principles and objectives:

- **Financial statements are prepared to provide useful information**

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on

CONFIDENTIAL DRAFT

them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

CONFIDENTIAL DRAFT

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on

CONFIDENTIAL DRAFT

Conceptual Framework Fundamentals and the Reporting Model is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

CONFIDENTIAL DRAFT

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 notes that:

- an asset exists when a plan has been overfunded or when actuarial gains have arisen (i.e. when there is a surplus for accounting purposes
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund. The asset ceiling is the present value of those future benefits.
- Control is a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following criteria for recognizing assets in the financial statements:

CONFIDENTIAL DRAFT

a) it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criterion requires future economic benefits to be *expected* not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

CONFIDENTIAL DRAFT

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a

Commented [LD5]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

CONFIDENTIAL DRAFT

liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their gains at different times, as historically has been the case. The result is that the portion of the plan net asset that relates to the government's share fluctuates as a percentage of the total net asset balance. Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any time, when determining what its share of the OPSEUPP asset is.

Commented [PO6]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

Commented [LD7R6]: To discuss –Propose deletion.

CONFIDENTIAL DRAFT

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see Section [x – measurement]), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are

CONFIDENTIAL DRAFT

primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint

CONFIDENTIAL DRAFT

sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus or otherwise. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can accrue only to the joint sponsors

Commented [PO8]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [LD9R8]: To discuss with Panel Interplay with funding regulations?
MG input

Commented [PO10]: Uros – true?

Commented [LD11R10]: To discuss at Panel

CONFIDENTIAL DRAFT

and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset considerations

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Commented [LD12]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

Commented [LD13]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

CONFIDENTIAL DRAFT

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally.

CONFIDENTIAL DRAFT

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition, which would be inconsistent with the guidance in PS 3250 to account for a JDBP using the guidance for defined benefit plans, which includes guidance on the recognition of accrued benefit assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors sharing control group each recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial

CONFIDENTIAL DRAFT

Government's position paper]. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents a economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

CONFIDENTIAL DRAFT

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, in the Panel's view it is not appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis. There is no need to change the existing rights within the contractual arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to obtain an expected future benefit. Consistent with the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur,

Commented [LD14]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

CONFIDENTIAL DRAFT

for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or when there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any

CONFIDENTIAL DRAFT

funding surplus in a preliminary valuation must be dealt with through the negotiation process before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, no funding surplus is anticipated by the OTPP. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Commented [PO15]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD16R15]: Edits to be made/discussed

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits

CONFIDENTIAL DRAFT

determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for OTPP beyond the next actuarial filingfor either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [LD17]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

Commented [LD18]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say ‘this is unclear and the PSAB Taskforce should look into it”.

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB’s initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say “there is a bunch of gray areas, and this Panel has sided with the province on each single count”

To discuss at Panel.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

CONFIDENTIAL DRAFT

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms proposed to deal with potential income volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for

CONFIDENTIAL DRAFT

unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

Commented [LD19]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD20]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

CONFIDEN

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

CONFIDEN

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSAS 39, Employee Benefits

IPSAS 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

11 - Email - January 12 2017 - executive summary.pdf

From:	Patricia O"Malley
To:	Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN)
Cc:	lucy.durocher@ca.pwc.com; Tam, Nelson (TBS)
Subject:	executive summary
Date:	January-12-17 11:01:26 AM
Attachments:	Executive Summary v1.docx

Good day everyone

Attached is my first crack at the ES. Thanks to Uros, I have added a section I have called "stepping back" at the end. After all the technical analysis, it seemed like a good idea to go back to Murray's notion of reasonable expectations. You might think about whether this should come earlier.

As usual, all comments gratefully received.

Nelson, could you please send on to Bryant for the communications review?

Thanks
Tricia

Executive Summary v1.pdf

Executive Summary

Introduction

What is the purpose of the Panel? – to provide advice to the Government on the difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General

What question was the Panel asked to address? – whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – OTPP and OPSEUPP

Why does it matter? – including the asset or not affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

How did the Panel operate? – The Panel received background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we fully understood their thinking. The Panel then did its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives some important background, the overall conclusions and the main considerations that influenced the Panel's thinking.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors appoint people to represent them in decision-making about the terms of the plan. They also usually appoint different people to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. The two groups of people have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are the ones that are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. All those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting

surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

Panel conclusions and considerations

What accounting standards apply to the Public Accounts?

Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.

What does the PSAB pension plan standard say?

For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.

The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.

When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However, the Panel's analysis concludes that a surplus asset exists for the Government in both OTPP and OPSEUPP because:

- the surplus in the plan has a future economic benefit – the excess assets in the plan can be used to reduce the contributions the Government is required to make to the plan, freeing revenue to be used for other purposes.
- the Government controls access to that surplus – the Government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared 50:50. In OPSEUPP, funding surpluses are allocated 50:50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. In both Plans, if the surplus is not used to improve benefits or reduce contributions, eventually contribution reductions will be needed for the Plans to continue to comply with the requirements of the Income Tax Act.

- the surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer and investment earnings.

Is there any other way the joint sponsors could benefit from a surplus in the Plans?

The PSAB pension standard notes that the sponsors could benefit by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawing assets.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan or approval of the joint sponsor as well as approval of FSCO. In contrast, plans are free to decide on the level of required contributions as long as they comply with the terms of the plan and with the PBA. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer need to reflect the significant differences in the legal regimes applying to the two ways of benefiting from surpluses.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly say that contribution reductions are not assets withdrawals. The terms of the OTPP are not as explicit. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the Government. Thus, the Government does not currently have an intention or ability to benefit by taking assets out of the Plans.

Does the Government need to know when and by how much contributions will be reduced to record an asset for the pension surpluses?

There is no requirement for any specific agreement to be in place for the Government to record an assets. The PSAB is clear that the benefits from the surplus need only be expected. The benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those uncertainties, like accounting for all other assets, the pension standard requires the Government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the Government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the Government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that

fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the Government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize them in the Public Accounts. And given the 50:50 sharing of the Plans, 50% would be a reasonable share of the surplus to record.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the PSAB pension standard each year.

11 - Executive Summary v1.docx

Executive Summary

Introduction

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Why does it matter? – including the asset or not affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

How did the Panel operate? – The Panel received background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we fully understood their thinking. The Panel then did its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives some important background, the overall conclusions and the main considerations that influenced the Panel's thinking.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors appoint people to represent them in decision-making about the terms of the plan. They also usually appoint different people to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. The two groups of people have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are the ones that are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. All those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting

surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

Panel conclusions and considerations

What accounting standards apply to the Public Accounts?

Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.

What does the PSAB pension plan standard say?

For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.

The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.

When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However, the Panel's analysis concludes that a surplus asset exists for the Government in both OTPP and OPSEUPP because:

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Does the Government need to know when and by how much contributions will be reduced to record an asset for the pension surpluses?

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12 - Email - January 12 2017 - RE_ EMBARGOED - Expert Panel - Executive Summary.pdf

From:	Sullivan, Bryant (TBS)
To:	Tam, Nelson (TBS)
Subject:	RE: EMBARGOED - Expert Panel - Executive Summary
Date:	January-12-17 4:16:07 PM

Thanks Nelson. Sofie and I will take a look and get back to you.

Bryant

From: Tam, Nelson (TBS)
Sent: January-12-17 11:08 AM
To: Sullivan, Bryant (TBS)
Subject: EMBARGOED - Expert Panel - Executive Summary

Bryant

Attached is the Chair's first draft of the Executive Summary as discussed yesterday. The Chair is looking for feedback/comments on the draft. There is no deadline but appreciate any comments tomorrow or Monday.

Please do not share widely as considered embargoed. Limit to those who will support you in the review.

Thanks

Nelson
X20514

13 - Email - January 12 2017 - Accounting Panel - Executive Summary v1.pdf

From:	Murray Gold
To:	Patricia O"Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Cc:	Tam, Nelson (TBS); Jean Nikolov
Subject:	Accounting Panel - Executive Summary v1
Date:	January-12-17 8:29:37 PM
Attachments:	logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png Executive Summary v1.docx

Thanks Tricia. This looks good. Minor comments noted.

KOSKIE MINSKY
JUSTICE MATTERS

Murray Gold
Partner
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KOSKIE
MINSKY
JUSTICE MATTERS

Executive Summary v1_1.pdf

Executive Summary

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- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

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Commented [MG1]: I don't think this has always been true. Do we need this sentence?

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Commented [MG2]: is this sentence hanging?

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13 - Executive Summary v1.docx

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Pension plan valuations are prepared by actuaries. More than one type of valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are the ones that are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

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Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. All those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional

contributions made to the plans to protect benefits and provide stability show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

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What accounting standards apply to the Public Accounts?

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What does the PSAB pension plan standard say?

For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.

The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.

When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However, the Panel's analysis concludes that a surplus asset exists for the Government in both OTPP and OPSEUPP because:

- the surplus in the plan has a future economic benefit – the excess assets in the plan can be used to reduce the contributions the Government is required to make to the plan, freeing revenue to be used for other purposes.
- the Government controls access to that surplus – the Government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared 50:50. In OPSEUPP, funding surpluses are allocated 50:50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. In both Plans, if the surplus is not used to improve benefits or reduce contributions, eventually contribution reductions will be needed for the Plans to continue to comply with the requirements of the Income Tax Act.

Commented [MG1]: I don't think this has always been true. Do we need this sentence?

- the surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer and investment earnings.

Is there any other way the joint sponsors could benefit from a surplus in the Plans?

The PSAB pension standard notes that the sponsors could benefit by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawing assets.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan or approval of the joint sponsor as well as approval of FSCO. In contrast, plans are free to decide on the level of required contributions as long as they comply with the terms of the plan and with the PBA. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer needs to reflect the significant differences in the legal regimes applying to the two ways of benefiting from surpluses.
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Commented [MG2]: is this sentence hanging?

Does the Government need to know when and by how much contributions will be reduced to record an asset for the pension surpluses?

There is no requirement for any specific agreement to be in place for the Government to record an asset~~s~~. The PSAB is clear that the benefits from the surplus need only be expected. The benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those uncertainties, like accounting for all other assets, the pension standard requires the Government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the Government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the Government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that

fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the Government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize them in the Public Accounts. And given the 50:50 sharing of the Plans, 50% would be a reasonable share of the surplus to record.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the PSAB pension standard each year.

14 - Email - January 13 2017 - RE_ executive summary.pdf

From:	Martin, Paul (FIN)
To:	"Patricia O"Malley"; Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Cc:	lucy.durocher@ca.pwc.com; Tam, Nelson (TBS)
Subject:	RE: executive summary
Date:	January-13-17 7:48:17 AM
Attachments:	Executive Summary v1 with PM comments.docx

Hi Trish,
My thoughts and comments tracked in the attached document.
Many thanks,
Paul

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Thursday, January 12, 2017 12:01 PM
To: Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN)
Cc: lucy.durocher@ca.pwc.com; Tam, Nelson (TBS)
Subject: executive summary

Good day everyone

Attached is my first crack at the ES. Thanks to Uros, I have added a section I have called "stepping back" at the end. After all the technical analysis, it seemed like a good idea to go back to Murray's notion of reasonable expectations. You might think about whether this should come earlier.

As usual, all comments gratefully received.

Nelson, could you please send on to Bryant for the communications review?

Thanks
Tricia

Executive Summary v1 with PM comments.pdf

Executive Summary

Introduction

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The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives some important background, the overall conclusions and the main considerations that influenced the Panel's thinking.

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What are pension plans?

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- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors appoint people to represent them in decision-making about the terms of the plan. They ~~also~~ usually appoint different people to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. The two groups of people have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

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14 - Executive Summary v1 with PM comments.docx

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The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the PSAB pension standard each year.

15 - Email - January 13 2017 - RE_ executive summary.pdf

From:	Uros Karadzic
To:	Patricia O"Malley; Murray Gold (mgold@kmlaw.ca); Martin, Paul (FIN)
Cc:	lucy.durocher@ca.pwc.com; Tam, Nelson (TBS)
Subject:	RE: executive summary
Date:	January-13-17 9:30:27 AM
Attachments:	Executive Summary v1 - UK edits.docx

Hi Tricia,

Thank you for pulling this together – my comments are in the attached.

Overall, I see why you had a concern that this was "too teachy" as you put it in our meeting. I tend to agree. There is much more here than what I think we need to put into Executive Summary. I don't think it is necessary, and further I think it obscures the purpose of the summary (it provides a background lesson, and not the summary of our main conclusions and reasoning). In fact, the summary could probably benefit from a more detailed explanation of our conclusion and key reasons for it.

If we do want to have this longer approach that includes a Background section, we should probably go back and carefully distill the main points that deal with how these plans work, different types of valuations, accounting standards that apply and so on. At the moment I find the language very casual and imprecise, undermining our key point that careful analysis of each plan is required to arrive at the correct accounting interpretation.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Thursday, January 12, 2017 11:01 AM
To: Murray Gold (mgold@kmlaw.ca) <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: lucy.durocher@ca.pwc.com; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: executive summary

Good day everyone

Attached is my first crack at the ES. Thanks to Uros, I have added a section I have called "stepping back" at the end. After all the technical analysis, it seemed like a good idea to go back to Murray's notion of reasonable expectations. You might think about whether this should come earlier.

As usual, all comments gratefully received.

Nelson, could you please send on to Bryant for the communications review?

Thanks
Tricia

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

Executive Summary v1 - UK edits.pdf

Executive Summary

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What question was the Panel asked to address? – whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – OTPP and OPSEUPP

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The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives some important background, the overall conclusions and the main considerations that influenced the Panel's thinking.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms and governance is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers, etc.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

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How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with legislation and the terms of the plan agreement. The Sponsors ~~must~~ agree on ~~all~~ decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors appoint people to represent them in decision-making about the terms of the plan. They also usually appoint different people to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. The two groups of people have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are the ones that are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. All those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting

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Panel conclusions and considerations

~~What accounting standards apply to the Public Accounts?~~

~~Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.~~

~~What does the PSAB pension plan standard say?~~

~~For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.~~

~~The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.~~

~~When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However, the~~ Panel's analysis concludes that an ~~surplus~~ asset exists for the Government in both OTPP and OPSEUPP because:

- the accounting surplus in the plans can be used to reduce the contributions the Government is required to make to the plans, freeing revenue to be used for other purposes.
- the Government controls access to that surplus – the Government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared 50:50. In OPSEUPP, funding surpluses are allocated 50:50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. ~~In both Plans, if the surplus is not used to improve benefits or reduce contributions, eventually contribution reductions will be needed for the Plans to continue to comply with the requirements of the Income Tax Act.~~

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The content here is essential for understanding the conclusions, but I wonder if it would sit better in the body of the report or in the Appendix.

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- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer and investment earnings.

Is there any other way the joint sponsors could benefit from a surplus in the Plans?

The PSAB pension standard notes that the sponsors could benefit from a surplus in the plan by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawing assets.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan or approval of the joint sponsor as well as approval of FSCO. In contrast, plans are free to decide on the level of required contributions as long as they comply with the terms of the plan and with the PBA. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer need to reflect the significant differences in the legal regimes applying to the two ways of benefiting from surpluses.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly say that contribution reductions are not assets withdrawals. The terms of the OTPP are not as explicit. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the Government. Thus, the Government does not currently have an intention or ability to benefit by taking assets out of the Plans.

Does the Government need to know when and by how much contributions will be reduced to record an asset for the pension surpluses?

There is no requirement for any specific agreement to be in place for the Government to record an assets, beyond the agreements already in place (ie. legislation and the various plan documents). The PSAB is clear that the benefits from the surplus need only be expected. The benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those uncertainties, like accounting for all other assets, the pension standard requires the Government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the Government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the Government (or teachers/OPSEU

members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

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15 - Executive Summary v1 - UK edits.docx

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16 - Email - January 16 2017 - Communication Feedback - Executive Summary & Potential Media Questions.pdf

From: Tam, Nelson (TBS)
To: Patricia O"Malley (plomalley@outlook.com)
Subject: Communication Feedback - Executive Summary & Potential Media Questions
Date: January-16-17 2:21:00 PM

Patricia

Below is feedback from Communications Branch. First is high level suggestion regarding the Executive Summary and 2nd part is potential questions that the media may ask as discussed at January 11 meeting.

Thanks

Nelson
416-212-0514

Executive Summary

A good guideline for the length of an Executive Summary is no more than 10% of the full report. So, in this case, 3-4 pages. Here is a helpful guide to help organize the content:

- Introduction (A summary of the issue and the report's conclusion)
- Background (A summary of the process used to study the issue)
- Conclusion (An outline of the Panel's recommendations and advice)

A lot of what is in the current background is in the Report. It could be condensed. Also, a reference can be added to where a more fulsome explanation can be found in the Report.

Potential Q&A's

Here are some key questions for consideration:

- How did you arrive to this conclusion and what resources did you use to arrive at this conclusion?
- Do you agree with the government's interpretation of the PSAS standards? Why or why not?
- Do you agree with the Auditor General's interpretation of the PSAS standards? Why or why not?
- Is the government or the Auditor General bound to adhere to your advice and conclusion?
- There is a perception that the panel is a paid third party opinion. How do you prove that this is an independent panel?
- This was the first year a change was presented in how pension assets should be valued. Was there an accounting change that caused the shift?

16A - Email - January 16 2017 - FW_ EMBARGOED - Expert Panel - Executive Summary.pdf

From: Ovenden, Erin (TBS)
To: Tam, Nelson (TBS)
Cc: Sullivan, Bryant (TBS); Miller, Amanda (TBS)
Subject: FW: EMBARGOED - Expert Panel - Executive Summary
Date: January-16-17 2:09:38 PM
Attachments: Executive Summary v1.docx

Hi Nelson-

Thank you for sharing this with us. We're happy to provide some format suggestions, as well as key questions for consideration. However, because this is from an independent panel we are not in a position to make any edits to the content.

A good guideline for the length of an Executive Summary is no more than 10% of the full report. So, in this case, 3-4 pages. Here is a helpful guide to help organize the content:

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- Background (A summary of the process used to study the issue)
- Conclusion (An outline of the Panel's recommendations and advice)

A lot of what is in the current background is in the Report. It could be condensed. Also, a reference can be added to where a more fulsome explanation can be found in the Report.

Here are some key questions for consideration:

- How did you arrive to this conclusion and what resources did you use to arrive at this conclusion?
- Do you agree with the government's interpretation of the PSAS standards? Why or why not?
- Do you agree with the Auditor General's interpretation of the PSAS standards? Why or why not?
- Is the government or the Auditor General bound to adhere to your advice and conclusion?
- There is a perception that the panel is a paid third party opinion. How do you prove that this is an independent panel?
- This was the first year a change was presented in how pension assets should be valued. Was there an accounting change that caused the shift?

Please contact me if you have any questions,

Erin Ovenden
Senior Communications Consultant
Communications Branch | Treasury Board Secretariat
77 Wellesley Street West, Ferguson Block
Toronto, ON M7A 1N3
Tel: 416-326-7727

From: Sullivan, Bryant (TBS)
Sent: January-13-17 2:47 PM
To: Ovenden, Erin (TBS)
Subject: FW: EMBARGOED - Expert Panel - Executive Summary

From: Tam, Nelson (TBS)
Sent: January-12-17 11:08 AM
To: Sullivan, Bryant (TBS)
Subject: EMBARGOED - Expert Panel - Executive Summary

Bryant

Attached is the Chair's first draft of the Executive Summary as discussed yesterday. The Chair is looking for feedback/comments on the draft. There is no deadline but appreciate any comments tomorrow or Monday.

Please do not share widely as considered embargoed. Limit to those who will support you in the review.

Thanks

Nelson
X20514

Executive Summary v1_2.pdf

Executive Summary

Introduction

What is the purpose of the Panel? – to provide advice to the Government on the difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General

What question was the Panel asked to address? – whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – OTPP and OPSEUPP

Why does it matter? – including the asset or not affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

How did the Panel operate? – The Panel received background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we fully understood their thinking. The Panel then did its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives some important background, the overall conclusions and the main considerations that influenced the Panel's thinking.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors appoint people to represent them in decision-making about the terms of the plan. They also usually appoint different people to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. The two groups of people have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are the ones that are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. All those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting

surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

Panel conclusions and considerations

What accounting standards apply to the Public Accounts?

Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.

What does the PSAB pension plan standard say?

For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.

The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.

When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However, the Panel's analysis concludes that a surplus asset exists for the Government in both OTPP and OPSEUPP because:

- the surplus in the plan has a future economic benefit – the excess assets in the plan can be used to reduce the contributions the Government is required to make to the plan, freeing revenue to be used for other purposes.
- the Government controls access to that surplus – the Government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared 50:50. In OPSEUPP, funding surpluses are allocated 50:50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. In both Plans, if the surplus is not used to improve benefits or reduce contributions, eventually contribution reductions will be needed for the Plans to continue to comply with the requirements of the Income Tax Act.

- the surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer and investment earnings.

Is there any other way the joint sponsors could benefit from a surplus in the Plans?

The PSAB pension standard notes that the sponsors could benefit by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawing assets.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan or approval of the joint sponsor as well as approval of FSCO. In contrast, plans are free to decide on the level of required contributions as long as they comply with the terms of the plan and with the PBA. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer need to reflect the significant differences in the legal regimes applying to the two ways of benefiting from surpluses.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly say that contribution reductions are not assets withdrawals. The terms of the OTPP are not as explicit. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the Government. Thus, the Government does not currently have an intention or ability to benefit by taking assets out of the Plans.

Does the Government need to know when and by how much contributions will be reduced to record an asset for the pension surpluses?

There is no requirement for any specific agreement to be in place for the Government to record an assets. The PSAB is clear that the benefits from the surplus need only be expected. The benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those uncertainties, like accounting for all other assets, the pension standard requires the Government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the Government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the Government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that

fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the Government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize them in the Public Accounts. And given the 50:50 sharing of the Plans, 50% would be a reasonable share of the surplus to record.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the PSAB pension standard each year.

17 - Email - January 14 2017 - Revised report _Final_ Draft.pdf

From:	lucy.durocher@ca.pwc.com
To:	Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN) (Paul.Martin@gnb.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject:	Revised report "Final" Draft
Date:	January-14-17 10:14:32 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Jan 13 compared to Jan 11.docx PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted.docx

Please see attached for the updated report ("Jan 13 formatted"), and a tracked changes document to the last version of January 11 for reference.
If you have any questions on what has been changed, please let me know. I will be checking e-mails tomorrow and am available for a call on Sunday/Monday if necessary.

Regards,

Lucy

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PENSION ASSET EXPERT ADVISORY PANEL Jan 13 co.pdf

PENSION ASSET EXPERT ADVISORY PANEL

~~[DRAFT]~~ REPORT

~~**[NTD – o/s Cover letter? (including mandate summary)**~~

~~**Executive Summary]**~~

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- ~~o~~ The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- ~~o~~ The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- ~~o~~ Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- ~~o~~ Recommendations to the Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans~~, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans~~ is not addressed in this report.

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Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

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~~All pension plans examined by the Panel are defined benefit plans.~~

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are ~~also~~ similar categories of defined benefit plans~~,~~ including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and ~~benefits~~ rewards[1] of a defined benefit plan ~~on an equitable basis~~ with plan participants, represented by an employee sponsor or sponsors~~.~~ [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members ~~[PS 3250.80].~~
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan ~~[PS 3250.80].~~
- The sponsors share, on an equitable basis, the significant risks (both positive and ~~benefits,~~negative) associated with the benefit plan ~~[Based on PS 3250.82~~

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

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Commented [LD2]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

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Commented [LD3]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

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~~and PS 3250.GLOSSARY].~~. The government does not retain the residual risks of the plan. ~~[~~

- [Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors ~~(or more)~~ that must work together. The sharing of the risks and ~~benefits~~rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities~~.~~ ~~[REF: PS 3250.GLOSSARY]~~ [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement~~, and~~. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently ~~established~~classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan ~~(~~ both the upside and downside of plan performance are equitably shared~~)~~. In addition, the ~~member Sponsors~~employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer ~~sponsor~~Sponsor and the employee ~~sponsor~~Sponsor, the move from single sponsored plans to ~~a~~ jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

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Commented [LD4]: **MG's comments:** Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

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OTPP – ~~Structure~~structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the ~~Employers~~employers have matched the members' contributions, based on the members' contributions in the year before the ~~previous~~preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members ~~(~~, except when specifically agreed otherwise~~)~~.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP~~; in~~. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced~~""~~", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the

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present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the ~~existing terms~~current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation. ~~The "status quo" could not be maintained if it resulted in filing an actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve.~~

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~the~~ ~~Partners~~Sponsors to negotiate either ~~to~~ lower contributions or ~~provide~~ temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the ~~Partners~~Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated ~~with~~. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

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Commented [LD5]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

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OPSEUPP – ~~Structure~~structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. ~~[s.4.6 of OPTrust Plan Text]~~

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently ~~[s1.3 of OPTrust Funding Policy].~~.

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In the event that a funding valuation discloses ~~net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met~~, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF ~~[s.56(c) and s.57 of OPTrust Sponsorship Agreement].~~ An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use ~~the Employer RSF~~it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize ~~its RSF in~~it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities ~~[5.2 of OPTrust Funding Policy].~~ Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified ~~that cannot~~. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency ~~[s.58 of OPTrust Sponsorship Agreement].~~ The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. ~~In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.~~

The plan text ~~[s.6.4]~~ clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

Commented [LD6]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

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The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

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Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

~~PSAS identifies sources~~Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles*~~.~~ (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration~~, that~~. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

~~If the concepts of~~ PS 1000 *Financial Statement Concepts*, (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles ~~of~~underlying the primary source of GAAP [based on PS 1150.14].

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If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are ~~currently~~ valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP ~~or~~and for assistance in applying a primary source of GAAP to specific circumstances~~.~~ [based on PS 1150.19]. ~~In addition,~~ The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

~~In addition to~~ Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary ~~sources~~source of GAAP~~,~~ relating to the recognition and measurement issues addressed in this report, ~~the Panel considered~~but also the concepts in PS 1000, the objectives of financial statements in PS ~~1150~~1100 and relevant guidance issued by other standard setters~~,~~ to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

- **Financial statements are prepared to provide useful information**

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Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term~~.~~ [based on PS 1000.15].

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The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to ~~support~~validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities~~, and to~~. Users also need to understand what extent there are restrictions or conditions attached to ~~their~~the use~~.~~ of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

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The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments~~.~~ [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality~~.~~ [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased~~.~~ [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

CONFIDENTIAL DRAFT

➢ What does "conservatism" mean and how should it be applied?

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PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on

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Conceptual Framework Fundamentals and the Reporting Model is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

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➢ What is the definition of an asset under PSAS

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Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*~~,~~ (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained~~.~~ [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

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(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.~~35-.~~36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 ~~notes~~states that:

- ~~an~~A net defined benefit asset ~~exists when~~may arise where a defined benefit plan has been overfunded or ~~when~~where actuarial gains have arisen ~~(i.e. when there is a surplus for accounting purposes~~

- ~~an asset arises because the~~. An entity ~~controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund. The asset ceiling is the present value of those future benefits.~~recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

- (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits~~Control is a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]~~

~~The~~.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate

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of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation. [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing assetsitems that meet the definition of an asset in the financial statements:

a) itIt has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) itIt is expected that such benefits will be obtained or given up. [

b) [Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected*, not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY]. "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government'sthe Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

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The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

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Recognition issues

Recognition - Issue 1

~~1)~~ Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government's portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors ~~affect the plan as a whole because there is~~result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the

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case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan~~.~~). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach~~.~~, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

~~An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental~~The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity~~,~~ - the plan~~,~~ - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets ~~(~~or liabilities~~)~~ in the plan

Commented [LD7]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

Commented [PO8]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

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~~in accordance with accounting standards~~ before determining ~~a sponsor's~~what portion of ~~the plan.~~those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (~~benefits~~rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* ~~[TPA 10 (1)].~~ This has historically been shared on a 50~~:~~/50 basis when considered over the long term.

The OPSEUPP plan indicates that any ~~actuarial gains are~~funding surplus is allocated between the employers and members on a 50~~:~~/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their ~~gains~~portion of the funding surplus at different times, as historically has been the case. The ~~result~~funding surplus is ~~that~~not the ~~portion of~~same as the ~~plan~~ net pension asset ~~that relates~~for accounting purposes, however to the ~~government's share fluctuates as~~ extent that one Sponsor has taken a ~~percentage of the total net asset balance. Consequently,~~benefit by utilizing their RSF and the ~~Ontario Provincial Government~~ other Sponsor has not, the remaining interest in the plan may ~~not have~~no longer be an exact 50% ~~portion of the net pension asset at any time, when determining what its share of the OPSEUPP asset is.~~interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

~~The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve ~~to determine~~in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

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Recognition - Issue 2

~~2)~~ Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in ~~Section [X],~~*Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in ~~Section [x]~~*Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in ~~Section [x – application to JDBPs]~~*Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see ~~Section [x – measurement]),~~*Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

~~This~~The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY~~,~~ "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

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In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of ~~the Superintendent of Financial Services.~~FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for ~~Superintendent~~FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus ~~or otherwise~~. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so

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Commented [PO10]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [LD11R10]: To discuss with Panel Interplay with funding regulations?
MG input

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only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. ~~Also, as~~As noted in ~~Section [x – *Determination of relevant accounting guidance*]~~ *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset ~~can~~ accrue ~~only~~ to the joint sponsors ~~and no other third party,~~ and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in ~~Section [X – recognition 3]~~ *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* ~~would~~(effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to

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Commented [PO12]: Uros – true?

Commented [LD13R12]: To discuss at Panel

Commented [LD14]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

CONFIDENTIAL DRAFT

occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset~~.~~" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information ~~arises~~becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to ~~clarify whether~~occur for the plan sponsors to be able to jointly ~~can~~ benefit from any surplus assets in the plan~~.~~ through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the ~~sponsors~~Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

~~3)~~ Definition of an asset - Control

As noted in ~~Section [x – determination~~*Determination of* ~~appropriate~~*relevant accounting principles]*~~,~~*guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with.

CONFIDENTIAL DRAFT

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Commented [LD15]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

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Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

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By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

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As noted in ~~Section [x – recognition 2]~~*Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

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Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset ~~cannot~~can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is ~~a~~ clearly an acceptable concept

CONFIDENTIAL DRAFT

under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition~~, which would be~~. Such a position seems inconsistent with the ~~guidance in~~ PS 3250 ~~to account~~requirement for ~~a JDBP~~ JDBPs to be accounted for using the guidance ~~for~~ that applies to defined benefit plans~~, which includes guidance on the recognition~~ with no exclusion of the guidance for recognizing and measuring an accrued benefit ~~assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control.~~ asset. In the context of PS 3250, and consistent with the Panel's views expressed in ~~Section [X – recognition~~*Recognition – Issue 1*~~]~~ the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors ~~sharing~~in the shared control group each recognize their share. ~~Consistent~~This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under ~~joint~~shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor ~~have~~/partner has an effective veto.

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Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

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Recognition – Issue 4

~~4)~~ Recognition criteria – Expectation that future economic benefits will be obtained

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In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

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For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of ~~Employer~~employer contributions,

CONFIDENTIAL DRAFT

even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. ~~[REF: Appendix G of the Ontario Provincial Government's position paper].~~ While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in ~~Section [x – measurement]~~*Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

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Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the ~~government's~~Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents ~~a~~an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

CONFIDENTIAL DRAFT

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement ~~issues~~Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 ~~provide guidance on measuring any~~sets out how this test is performed when there is an accrued benefit asset~~ that results when the plan assets are greater than the accrued benefit obligation.~~. This is known as the "Limit on the ~~carrying amount~~ Carrying Amount of an ~~accrued benefit asset~~Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in ~~Section [x – recognition~~*Recognition – Issue 1*~~],~~ the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

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PS 3250 defines an accrued benefit asset as "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~~).")~~" [PS 3250.GLOSSARY~~]~~ "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "~~Adjusted~~An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains~~.""~~ [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net

CONFIDENTIAL DRAFT

unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the ~~case~~cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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~~.~~ [PS 3250.56~~]~~].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

~~1)~~ Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in ~~Section [x – recognition –~~ *Recognition – Issue ~~4~~*~~]~~ above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future~~, or in~~. In other words, the expected future benefits that can be obtained from the asset~~.~~ ~~[~~ [based on PS 3250.55~~]~~]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel ~~previously~~ concluded that the Ontario Provincial Government ~~did~~does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the

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amounts calculated in accordance with 56 (a) (contribution holidays). ~~Each sentence in paragraph 59, other than~~In the ~~last one, specifically refers to a withdrawal~~context of ~~assets from~~ the ~~plan.~~standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan ~~text~~texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding ~~surplus withdrawals~~ those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between ~~joint sponsors.~~government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis~~. There is no need to change the existing rights within the contractual~~ that are already effective. The plan arrangements ~~in the Plans in order for the Ontario Provincial Government, as~~do not require a change in that allocation for a joint sponsor~~,~~ to ~~obtain~~access an expected future benefit. ~~Consistent with the last sentence of paragraph 59, a change to the plan documents would be needed to alter these~~This is explicit in the OPSEUPP arrangements ~~and any change would affect the accounting only when it became effective.~~that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, ~~or~~ contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

Commented [LD16]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

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No such restriction exists in the OTPP. ~~The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions.~~ The current arrangement that the employers match ~~a~~ the year preceding the prior ~~years'~~year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see ~~Section [x – recognition 2]~~*Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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Commented [LD17]: MURRAY to review to ensure comfortable with this.

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Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

~~2)~~ Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

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~~3)~~ Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in ~~Section [x – measurement~~*Measurement – Issue 1*~~]~~ the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no ~~"~~minimum contributions~~"~~ that must be made~~,~~ "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors~~. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, no funding surplus is anticipated by the OTPP.~~ that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to

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reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status ~~and cannot be said to~~ – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However ~~this view would not be consistent with the notion~~, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the ~~valuation allowance is being applied to~~ current level of contributions are not "fixed" past the next filing date because the plan ~~as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and~~documents *require* that the ~~joint sponsors are entitled to an equitable portion of any~~Sponsors negotiate how a funding surplus ~~under~~/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the ~~basic JDBP arrangements.~~ current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

Commented [PO18]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD19R18]: Edits to be made/discussed

Commented [LD20]: PAUL to review to ensure he is comfortable with this.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members

CONFIDENTIAL DRAFT

uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" for OTPP beyond the next actuarial ~~filingfor~~filing for either plan.

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Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as the present value of its expected future accruals for service for the current number of active employees, less

CONFIDENTIAL DRAFT

the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

~~The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole-employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

Recommendations to PSAB Employment ~~Future~~ Benefits Task Force

~~*Application of guidance to Joint Defined Benefit Plans*~~

~~The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.~~

~~*Minimum contributions*~~

~~In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional~~

Commented [LD21]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

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Commented [LD22]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

To discuss at Panel.

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interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms proposed to deal with potential income volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be used to settle an obligation should affect how that

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Commented [LD23]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD24]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

~~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.~~

~~*Funding valuation*~~

~~As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.~~

~~The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.~~

~~The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.~~

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~~APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS~~

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

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Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

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Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

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in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

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(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

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understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

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.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

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involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

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.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section ~~PS 1000~~ PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section ~~PS 1000~~ PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

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government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

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PS 1150, Generally Accepted Accounting Principles

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PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

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(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

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(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

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with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

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.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

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.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

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PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

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.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

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(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

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CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

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CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

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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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

~~*International Public Sector Accounting Standards*~~

~~*IPSAS 39, Employee Benefits*~~

~~*IPSAS 39.67*~~

~~A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:~~

- ~~(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;~~
- ~~(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and~~

~~(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits~~

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PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

CONFIDENTIAL DRAFT

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

17 - PENSION ASSET EXPERT ADVISORY PANEL Jan 13 compared to Jan 11.docx

PENSION ASSET EXPERT ADVISORY PANEL

~~[DRAFT]~~ REPORT

~~**[NTD – o/s Cover letter? (including mandate summary)**~~

~~**Executive Summary]**~~

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- ~~o~~ The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- ~~o~~ The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- ~~o~~ Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- ~~o~~ Recommendations to the Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans~~, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans~~ is not addressed in this report.

CONFIDENTIAL DRAFT

Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

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~~All pension plans examined by the Panel are defined benefit plans.~~

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are ~~also~~ similar categories of defined benefit plans~~,~~ including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and ~~benefits~~ rewards[1] of a defined benefit plan ~~on an equitable basis~~ with plan participants, represented by an employee sponsor or sponsors~~.~~ [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members ~~[PS 3250.80].~~
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan ~~[PS 3250.80].~~
- The sponsors share, on an equitable basis, the significant risks (both positive and ~~benefits,~~negative) associated with the benefit plan ~~[Based on PS 3250.82~~

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

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Commented [LD2]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

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Commented [LD3]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

~~and PS 3250.GLOSSARY].~~. The government does not retain the residual risks of the plan. ~~[~~

- [Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors ~~(or more)~~ that must work together. The sharing of the risks and ~~benefits~~rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities~~.~~ ~~[REF: PS 3250.GLOSSARY]~~ [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement~~, and~~. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently ~~established~~classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan ~~(~~ both the upside and downside of plan performance are equitably shared~~)~~. In addition, the ~~member Sponsors~~employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer ~~sponsor~~Sponsor and the employee ~~sponsor~~Sponsor, the move from single sponsored plans to ~~a~~ jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

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Commented [LD4]: **MG's comments:** Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

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CONFIDENTIAL DRAFT

OTPP – ~~Structure~~structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the ~~Employers~~employers have matched the members' contributions, based on the members' contributions in the year before the ~~previous~~preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members ~~(~~, except when specifically agreed otherwise~~)~~.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP~~; in~~. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced~~""~~", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the

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CONFIDENTIAL DRAFT

present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the ~~existing terms~~current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation. ~~The "status quo" could not be maintained if it resulted in filing an actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve.~~

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~the~~ ~~Partners~~Sponsors to negotiate either ~~to~~ lower contributions or ~~provide~~ temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the ~~Partners~~Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated ~~with~~. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

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Commented [LD5]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

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CONFIDENTIAL DRAFT

OPSEUPP – ~~Structure~~structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. ~~[s.4.6 of OPTrust Plan Text]~~

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently ~~[s1.3 of OPTrust Funding Policy].~~.

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CONFIDENTIAL DRAFT

In the event that a funding valuation discloses ~~net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met~~, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF ~~[s.56(c) and s.57 of OPTrust Sponsorship Agreement].~~ An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use ~~the Employer RSF~~it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize ~~its RSF in~~it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities ~~[5.2 of OPTrust Funding Policy].~~ Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified ~~that cannot~~. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency ~~[s.58 of OPTrust Sponsorship Agreement].~~ The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. ~~In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.~~

The plan text ~~[s.6.4]~~ clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

Commented [LD6]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

CONFIDENTIAL DRAFT

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

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Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

~~PSAS identifies sources~~Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles*~~.~~ (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration~~, that~~. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

~~If the concepts of~~ PS 1000 *Financial Statement Concepts*, (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles ~~of~~underlying the primary source of GAAP [based on PS 1150.14].

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If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are ~~currently~~ valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP ~~or~~and for assistance in applying a primary source of GAAP to specific circumstances~~.~~ [based on PS 1150.19]. ~~In addition,~~ The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

~~In addition to~~ Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary ~~sources~~source of GAAP~~,~~ relating to the recognition and measurement issues addressed in this report, ~~the Panel considered~~but also the concepts in PS 1000, the objectives of financial statements in PS ~~1150~~1100 and relevant guidance issued by other standard setters~~,~~ to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

- **Financial statements are prepared to provide useful information**

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Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term~~.~~ [based on PS 1000.15].

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The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to ~~support~~validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities~~, and to~~. Users also need to understand what extent there are restrictions or conditions attached to ~~their~~the use~~.~~ of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

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The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments~~.~~ [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality~~.~~ [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased~~.~~ [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

CONFIDENTIAL DRAFT

➢ What does "conservatism" mean and how should it be applied?

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PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on

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Conceptual Framework Fundamentals and the Reporting Model is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

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➢ What is the definition of an asset under PSAS

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Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*~~,~~ (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained~~.~~ [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

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(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.~~35-.~~36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 ~~notes~~states that:

- ~~an~~A net defined benefit asset ~~exists when~~may arise where a defined benefit plan has been overfunded or ~~when~~where actuarial gains have arisen ~~(i.e. when there is a surplus for accounting purposes~~

- ~~an asset arises because the~~. An entity ~~controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund. The asset ceiling is the present value of those future benefits.~~recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

- (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits~~Control is a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]~~

~~The~~.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate

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of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation. [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing assetsitems that meet the definition of an asset in the financial statements:

a) itIt has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) itIt is expected that such benefits will be obtained or given up. [

b) [Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected*, not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY]. "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government'sthe Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

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The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

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Recognition issues

Recognition - Issue 1

~~1)~~ Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government's portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors ~~affect the plan as a whole because there is~~result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the

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case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan~~.~~). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach~~.~~, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

~~An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental~~The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity~~,~~ - the plan~~,~~ - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets ~~(~~or liabilities~~)~~ in the plan

Commented [LD7]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

Commented [PO8]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

Commented [LD9R8]: To discuss –Propose deletion.

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~~in accordance with accounting standards~~ before determining ~~a sponsor's~~what portion of ~~the plan.~~those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (~~benefits~~rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* ~~[TPA 10 (1)].~~ This has historically been shared on a 50~~:~~/50 basis when considered over the long term.

The OPSEUPP plan indicates that any ~~actuarial gains are~~funding surplus is allocated between the employers and members on a 50~~:~~/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their ~~gains~~portion of the funding surplus at different times, as historically has been the case. The ~~result~~funding surplus is ~~that~~not the ~~portion of~~same as the ~~plan~~ net pension asset ~~that relates~~for accounting purposes, however to the ~~government's share fluctuates as~~ extent that one Sponsor has taken a ~~percentage of the total net asset balance. Consequently,~~benefit by utilizing their RSF and the ~~Ontario Provincial Government~~ other Sponsor has not, the remaining interest in the plan may ~~not have~~no longer be an exact 50% ~~portion of the net pension asset at any time, when determining what its share of the OPSEUPP asset is.~~interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

~~The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve ~~to determine~~in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

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Recognition - Issue 2

~~2)~~ Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in ~~Section [X],~~*Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in ~~Section [x]~~*Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in ~~Section [x – application to JDBPs]~~*Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see ~~Section [x – measurement]),~~*Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

~~This~~The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY~~,~~ "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

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In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of ~~the Superintendent of Financial Services.~~FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for ~~Superintendent~~FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus ~~or otherwise~~. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so

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Commented [PO10]: Is this true? Can they reduce contributions even if there isn't a surplus?

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MG input

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only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. ~~Also, as~~As noted in ~~Section [x – *Determination of relevant accounting guidance*]~~ *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset ~~can~~ accrue ~~only~~ to the joint sponsors ~~and no other third party,~~ and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in ~~Section [X – recognition 3]~~ *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* ~~would~~(effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to

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Commented [PO12]: Uros – true?

Commented [LD13R12]: To discuss at Panel

Commented [LD14]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

CONFIDENTIAL DRAFT

occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset~~.~~" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information ~~arises~~becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to ~~clarify whether~~occur for the plan sponsors to be able to jointly ~~can~~ benefit from any surplus assets in the plan~~.~~ through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the ~~sponsors~~Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

~~3)~~ Definition of an asset - Control

As noted in ~~Section [x – determination~~*Determination of* ~~appropriate~~*relevant accounting principles]*~~,~~*guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with.

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Commented [LD15]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

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Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

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By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

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As noted in ~~Section [x – recognition 2]~~*Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

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Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset ~~cannot~~can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is ~~a~~ clearly an acceptable concept

CONFIDENTIAL DRAFT

under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition~~, which would be~~. Such a position seems inconsistent with the ~~guidance in~~ PS 3250 ~~to account~~requirement for ~~a JDBP~~ JDBPs to be accounted for using the guidance ~~for~~ that applies to defined benefit plans~~, which includes guidance on the recognition~~ with no exclusion of the guidance for recognizing and measuring an accrued benefit ~~assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control.~~ asset. In the context of PS 3250, and consistent with the Panel's views expressed in ~~Section [X – recognition~~*Recognition – Issue 1*~~]~~ the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors ~~sharing~~in the shared control group each recognize their share. ~~Consistent~~This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under ~~joint~~shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor ~~have~~/partner has an effective veto.

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Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

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Recognition – Issue 4

~~4)~~ Recognition criteria – Expectation that future economic benefits will be obtained

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In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

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For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of ~~Employer~~employer contributions,

CONFIDENTIAL DRAFT

even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. ~~[REF: Appendix G of the Ontario Provincial Government's position paper].~~ While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in ~~Section [x – measurement]~~*Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

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Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the ~~government's~~Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents ~~a~~an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

CONFIDENTIAL DRAFT

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement ~~issues~~Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 ~~provide guidance on measuring any~~sets out how this test is performed when there is an accrued benefit asset~~ that results when the plan assets are greater than the accrued benefit obligation.~~. This is known as the "Limit on the ~~carrying amount~~ Carrying Amount of an ~~accrued benefit asset~~Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in ~~Section [x – recognition~~*Recognition – Issue 1*~~],~~ the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

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PS 3250 defines an accrued benefit asset as "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~~).")~~" [PS 3250.GLOSSARY~~]~~ "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "~~Adjusted~~An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains~~.""~~ [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net

CONFIDENTIAL DRAFT

unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the ~~case~~cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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~~.~~ [PS 3250.56~~]~~].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

~~1)~~ Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in ~~Section [x – recognition –~~ *Recognition – Issue ~~4~~*~~]~~ above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future~~, or in~~. In other words, the expected future benefits that can be obtained from the asset~~.~~ ~~[~~ [based on PS 3250.55~~]~~]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel ~~previously~~ concluded that the Ontario Provincial Government ~~did~~does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the

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amounts calculated in accordance with 56 (a) (contribution holidays). ~~Each sentence in paragraph 59, other than~~In the ~~last one, specifically refers to a withdrawal~~context of ~~assets from~~ the ~~plan.~~standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan ~~text~~texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding ~~surplus withdrawals~~ those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between ~~joint sponsors.~~government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis~~. There is no need to change the existing rights within the contractual~~ that are already effective. The plan arrangements ~~in the Plans in order for the Ontario Provincial Government, as~~do not require a change in that allocation for a joint sponsor~~,~~ to ~~obtain~~access an expected future benefit. ~~Consistent with the last sentence of paragraph 59, a change to the plan documents would be needed to alter these~~This is explicit in the OPSEUPP arrangements ~~and any change would affect the accounting only when it became effective.~~that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, ~~or~~ contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

Commented [LD16]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

CONFIDENTIAL DRAFT

No such restriction exists in the OTPP. ~~The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions.~~ The current arrangement that the employers match ~~a~~ the year preceding the prior ~~years'~~year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see ~~Section [x – recognition 2]~~*Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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Commented [LD17]: MURRAY to review to ensure comfortable with this.

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Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

~~2)~~ Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

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~~3)~~ Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in ~~Section [x – measurement~~*Measurement – Issue 1*~~]~~ the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no ~~"~~minimum contributions~~"~~ that must be made~~,~~ "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors~~. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, no funding surplus is anticipated by the OTPP.~~ that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to

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reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status ~~and cannot be said to~~ – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However ~~this view would not be consistent with the notion~~, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the ~~valuation allowance is being applied to~~ current level of contributions are not "fixed" past the next filing date because the plan ~~as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and~~documents *require* that the ~~joint sponsors are entitled to an equitable portion of any~~Sponsors negotiate how a funding surplus ~~under~~/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the ~~basic JDBP arrangements.~~ current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

Commented [PO18]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD19R18]: Edits to be made/discussed

Commented [LD20]: PAUL to review to ensure he is comfortable with this.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members

CONFIDENTIAL DRAFT

uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" for OTPP beyond the next actuarial ~~filingfor~~filing for either plan.

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Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as the present value of its expected future accruals for service for the current number of active employees, less

CONFIDENTIAL DRAFT

the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

~~The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole-employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

Recommendations to PSAB Employment ~~Future~~ Benefits Task Force

~~*Application of guidance to Joint Defined Benefit Plans*~~

~~The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.~~

~~*Minimum contributions*~~

~~In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional~~

Commented [LD21]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

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Commented [LD22]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

To discuss at Panel.

CONFIDENTIAL DRAFT

interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms proposed to deal with potential income volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be used to settle an obligation should affect how that

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Commented [LD23]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD24]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

~~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.~~

~~*Funding valuation*~~

~~As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.~~

~~The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.~~

~~The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.~~

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~~APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS~~

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

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Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

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Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

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in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

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(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

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understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

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.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

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involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

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.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section ~~PS 1000~~ PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section ~~PS 1000~~ PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

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government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

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PS 1150, Generally Accepted Accounting Principles

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PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

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(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

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(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

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.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

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.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

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PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

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.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

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(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

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CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

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.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

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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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

~~*International Public Sector Accounting Standards*~~

~~*IPSAS 39, Employee Benefits*~~

~~*IPSAS 39.67*~~

~~A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:~~

- ~~(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;~~
- ~~(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and~~

~~(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits~~

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PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

CONFIDENTIAL DRAFT

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

18 - EMBARGOED - PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

CONFIDENTIAL DRAFT

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

18- Email - January 16 2017 - RE_ EMBARGOED Expert Panel Report for _Cold_ review.pdf

From: Ovenden, Erin (TBS)
To: Tam, Nelson (TBS); Sullivan, Bryant (TBS)
Subject: RE: EMBARGOED Expert Panel Report for "Cold" review
Date: January-16-17 8:33:10 AM

Thank you Nelson.

Erin Ovenden
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From: Tam, Nelson (TBS)
Sent: January-16-17 8:19 AM
To: Sullivan, Bryant (TBS); Ovenden, Erin (TBS)
Subject: EMBARGOED Expert Panel Report for "Cold" review

Bryant, Erin

Attached is the report for your “cold” review. There are a few comments. Please flag any inconsistency/contrradictions etc. It is short notice, but any comments by tomorrow or Wednesday would be appreciated so the report writer can incorpoate for the Chair’s final review.

Please let me know if there is any concern regarding the turnaround.

Thanks

Nelson
X20514

19 - Email - January 17 2017 - RE_ Revised report _Final_ Draft.pdf

From:	Uros Karadzic
To:	lucy.durocher@ca.pwc.com; Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Subject:	RE: Revised report "Final" Draft
Date:	January-17-17 11:50:48 AM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted - UK edits.docx

Hi Lucy,

Here are my final few edits and comments – all quite minor.

Uros

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Subject: Revised report "Final" Draft

Please see attached for the updated report ("Jan 13 formatted"), and a tracked changes document to the last version of January 11 for reference.
If you have any questions on what has been changed, please let me know. I will be checking e-mails tomorrow and am available for a call on Sunday/Monday if necessary.

Regards,

Lucy

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PENSION ASSET EXPERT ADVISORY PANEL Jan 13 fo_1.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [UK2R1]: Are you ok with my edit to the footnote? I think it's important that the French version is equally authoritative (fact that non-accountants like myself may not be aware of unless pointed out).

Commented [LD3]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French ~~translation~~ version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ~~ensure a stable and~~ adequately fund~~ed~~ the plan.

Commented [UK4]: Different funding policies have different objectives. In any case, "ensuring" any of these outcomes isn't really possible.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

CONFIDENTIAL DRAFT

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

19 - PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted - UK edits.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [UK2R1]: Are you ok with my edit to the footnote? I think it's important that the French version is equally authoritative (fact that non-accountants like myself may not be aware of unless pointed out).

Commented [LD3]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French ~~translation~~ version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ~~ensure a stable and~~ adequately fund~~ed~~ the plan.

Commented [UK4]: Different funding policies have different objectives. In any case, "ensuring" any of these outcomes isn't really possible.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

CONFIDENTIAL DRAFT

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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

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valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

2 - EMBARGOED - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31.docx

EMBARGOED – NOT TO BE SHARED

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

CONFIDENTIAL DRAFT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single

CONFIDENTIAL DRAFT

sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

CONFIDENTIAL DRAFT

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it

CONFIDENTIAL - DRAFT

resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment

CONFIDENTIAL DRAFT

strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF,

CONFIDENTIAL DRAFT

either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS

CONFIDENTIAL DRAFT

1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Limit guidance”) to the government’s share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government’s portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government’s portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as “Assets” of the sponsor and plan liabilities as “Liabilities” of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an “equity method” of accounting which reflects the sponsor’s interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor’s portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement

CONFIDENTIAL DRAFT

to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in

CONFIDENTIAL DRAFT

accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a

CONFIDENTIAL DRAFT

means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable

CONFIDENTIAL DRAFT

share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS

CONFIDENTIAL DRAFT

including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the “Limit on the carrying amount of an accrued benefit asset” (the “Limit guidance” or “Valuation allowance”). Consistent with the Panel’s views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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).” [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.” This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a

CONFIDENTIAL DRAFT

process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a

CONFIDENTIAL DRAFT

reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any

CONFIDENTIAL DRAFT

agreement, the existing contribution levels are “fixed” and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole sponsored plans and JDBPs

CONFIDENTIAL DRAFT

may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is

CONFIDENTIAL DRAFT

not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the

CONFIDENTIAL DRAFT

financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

CONFIDENTIAL DRAFT

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDE

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

2 - Email - January 3 2017 - RE_ EMBARGOED - Expert Panel Draft Final Report.pdf

From: Jackson, Sarah (TBS)
To: Tam, Nelson (TBS)
Cc: Sullivan, Bryant (TBS)
Subject: RE: EMBARGOED - Expert Panel Draft Final Report
Date: January-03-17 10:32:58 AM
Sensitivity: Confidential

Thanks for this, Nelson. We will get to work to meet Friday's deadline.

Sarah

Sarah Jackson
Senior Communications Consultant
Treasury Board Secretariat
Ph: 416-212-7790
Email: Sarah.Jackson@ontario.ca

From: Tam, Nelson (TBS)
Sent: January-03-17 10:18 AM
To: Jackson, Sarah (TBS)
Cc: Sullivan, Bryant (TBS)
Subject: EMBARGOED - Expert Panel Draft Final Report
Sensitivity: Confidential

Sarah

As discussed with Erin and Bryant, attached is the draft report from the report writer for Communications' review for formating and accessibility in advance of the finalization.

This document is **not to be shared with anyone** as the Panel members may have additional comments/changes.

Please send back the document with any updates to the formatting and accessibility requirements by **Friday, January 6th at 3PM**. The report writer will use your updated version to make any edits required by the Panel.

The Chair is scheduled to brief TBS and MOF DM on Monday, Janaury 9th.

If you have any questions, please give me a call.

Thanks

Nelson
X20514

20 - Email - January 17 2017 - RE_ Revised report _Final_ Draft.pdf

From:	Martin, Paul (FIN)
To:	"lucy.durocher@ca.pwc.com"; Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject:	RE: Revised report "Final" Draft
Date:	January-17-17 12:26:10 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted with PM comments.docx

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A few minor suggested edits highlighted.

Please look over my suggested wording on page 29 for the NB pensions discussion and advise if ok or any revisions you may suggest.

Thanks,

Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Saturday, January 14, 2017 11:14 PM
To: Patricia O'Malley
Cc: Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject: Revised report "Final" Draft

Please see attached for the updated report ("Jan 13 formatted"), and a tracked changes document to the last version of January 11 for reference.
If you have any questions on what has been changed, please let me know. I will be checking e-mails tomorrow and am available for a call on Sunday/Monday if necessary.

Regards,

Lucy

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PENSION ASSET EXPERT ADVISORY PANEL Jan 13 fo_2.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability ~~purposes~~ and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

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➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

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PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

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PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are ~~therefore~~ dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where~~by the plan mechanisms mean the~~ government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents therefore, contribution reductions are limited~~, based on the plan formulas and cannot be changed under the current plan arrangements.~~

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are

CONFIDENTIAL DRAFT

required to be made “regardless of any surplus”, but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of

CONFIDENTIAL - DRAFT

each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures

CONFIDENTIAL DRAFT

regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

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PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

20 - PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted with PM comments.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability ~~purposes~~ and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

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➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

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PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits

CONFIDENTIAL DRAFT

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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

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PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are ~~therefore~~ dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where~~by the plan mechanisms mean the~~ government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents therefore, contribution reductions are limited~~, based on the plan formulas and cannot be changed under the current plan arrangements.~~

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are

CONFIDENTIAL DRAFT

required to be made “regardless of any surplus”, but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of

CONFIDENTIAL - DRAFT

each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures

CONFIDENTIAL DRAFT

regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

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PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

21 - Email - January 17 2017 - RE_ Revised report _Final_ Draft.pdf

From:	Tam, Nelson (TBS)
To:	"lucy.durocher@ca.pwc.com"; Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Martin, Paul (FIN) (Paul.Martin@gnb.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject:	RE: Revised report "Final" Draft
Date:	January-17-17 1:43:00 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted NT Comments.docx

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Lucy

A couple of edits and a few questions, mostly relating to whether we should include HB in Appendix B.

Thanks

Nelson
416-212-0514

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: January-14-17 10:14 PM
To: Patricia O'Malley
Cc: Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN) (Paul.Martin@gnb.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject: Revised report "Final" Draft

Please see attached for the updated report ("Jan 13 formatted"), and a tracked changes document to the last version of January 11 for reference.
If you have any questions on what has been changed, please let me know. I will be checking e-mails tomorrow and am available for a call on Sunday/Monday if necessary.

Regards,

Lucy

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PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Commented [NT3]: It should be Minister of Education only. When the plan was created, the Minister held both portfolios.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

Commented [NT4]: Should we add this section to Appendix B?

Commented [NT5]: Should we add this section to Appendix B?

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

Commented [NT6]: The Chair mentioned that this was already discussed with you. Neutral and faithfully represents is part of reliability and then it switches to relevant. Maybe need some re-wording.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

Commented [NT7]: Added the "d" to match the reference.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

Commented [NT8]: I was not sure what this means. There maybe two concepts here that needs some clarification.

Commented [NT9]: Should it say "the government's portion of the net asset or net liability".

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

Commented [NT10]: Do we need this in Appendix B?

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

Commented [NT11]: Should this be "rewards" as per your footnote on page 2

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

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CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

CONFIDENTIAL DRAFT

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

21 - PENSION ASSET EXPERT ADVISORY PANEL Jan 13 formatted NT Comments.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

Commented [LD1]: Editing note – although we tried to stay away from footnotes this is really an editorial note in nature so should be in a footnote. It doesn't need to be read to understand the report, it's really a technical note.

Commented [LD2]: Editing note to Panel: Reverted back to this language as PS 3250.80 from which this is extracted does refer only to risks in this context. Have made additional edits/references to the paragraph above and below to make it clear that both risks and rewards must be shared in a JDBP.

CONFIDENTIAL DRAFT

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the French translation of PS 3250 uses a single term - "avantages".

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Commented [NT3]: It should be Minister of Education only. When the plan was created, the Minister held both portfolios.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the

CONFIDENTIAL DRAFT

Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. There is no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.

CONFIDENTIAL DRAFT

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ensure a stable and adequately funded plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

CONFIDENTIAL DRAFT

PS 1000 *Financial Statement Concepts* (PS 1000) described the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector, is applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

CONFIDENTIAL DRAFT

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

Commented [NT4]: Should we add this section to Appendix B?

Commented [NT5]: Should we add this section to Appendix B?

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

CONFIDENTIAL DRAFT

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

Commented [NT6]: The Chair mentioned that this was already discussed with you. Neutral and faithfully represents is part of reliability and then it switches to relevant. Maybe need some re-wording.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
>
> (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

CONFIDENTIAL DRAFT

> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and

CONFIDENTIAL DRAFT

the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing items that meet the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

Commented [NT7]: Added the "d" to match the reference.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining what the government’s portion of the JDBP is.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each

CONFIDENTIAL DRAFT

Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

Commented [NT8]: I was not sure what this means. There maybe two concepts here that needs some clarification.

Commented [NT9]: Should it say "the government's portion of the net asset or net liability".

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g. Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This has historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

The funding surplus is not the same as the net pension asset for accounting purposes, however to the extent that one Sponsor has taken a benefit by utilizing their RSF and the other Sponsor has not, the remaining interest in the plan may no longer be an exact 50% interest.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

CONFIDENTIAL DRAFT

Ability to benefit

The above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been

CONFIDENTIAL DRAFT

passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrue to the joint sponsors , and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

Commented [NT10]: Do we need this in Appendix B?

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events, such as changes to the Plan agreements or regulatory approvals, that are needed to occur for the plan sponsors to be able to jointly benefit from any surplus assets in the plan through contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled asset can never meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring an accrued benefit asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement

CONFIDENTIAL DRAFT

concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

Commented [NT11]: Should this be "rewards" as per your footnote on page 2

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of an accrued benefit asset

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized for an asset is recoverable – that is, the government continues to expect that future economic benefits will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is an accrued benefit asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies

CONFIDENTIAL DRAFT

two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel concluded that the Ontario Provincial Government does not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited). Therefore, in the Panel's view it is not appropriate to analogize the guidance in paragraph 59 on withdrawal on plan surpluses that is specific to the legal circumstances surrounding those transactions to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already effective. The plan arrangements do not require a change in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 was read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or

CONFIDENTIAL DRAFT

when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Commented [LD12]: MURRAY to review to ensure comfortable with this.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions are not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words the "status quo" is not sustainable for perpetuity if it results in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are therefore dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, whereby the plan mechanisms mean the government's contribution rates are pre-determined based on the plan formulas and cannot be changed under the current plan arrangements.

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Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is

CONFIDENTIAL DRAFT

appropriate. In the case of OTPP required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce contributions that it would otherwise be required to make indicating there are no required employee contributions, regardless of any surplus.

Panel view – Measurement - Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” and therefore also no “required employee contributions” for OTPP beyond the next actuarial filing for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required.

CONFIDENTIAL DRAFT

The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and a recognition guidance in PS 1000, making it more difficult to apply such concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements to that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available. The Panel recommends that the PSAB Employment Benefits Task Force consider how the discount rate used to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount

CONFIDENTIAL DRAFT

involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

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PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a

government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

CONFIDENTIAL

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent

CONFIDENTIAL DRAFT

with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

CONFIDENTIAL DRAFT

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government Partnership

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have

shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a

CONFIDENTIAL DRAFT

service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit.

CONFIDENTIAL DRAFT

Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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

CONFIDENTIAL DRAFT

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 expensxes 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.

PS 3250.79-.82 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.

CONFIDENTIAL DRAFT

.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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable

EXPOSURE DRAFT

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFIDENTIAL DRAFT

22 - Email - January 17 2017 - executive summary round 2.pdf

From:	Patricia O"Malley
To:	Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc:	Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject:	executive summary round 2
Date:	January-17-17 4:24:00 PM
Attachments:	Executive Summary v2.docx

Good day

Thanks for the comments to Lucy. We should be in good shape for finalizing no later than the end of the week.

I got the communications feedback on the exec summary draft, and they wanted it shorter with more emphasis on the conclusions (thanks Uros!). However, we will likely make use of the background material as part of the package for the media event, so I have left it at the end of the file just so we can find it. Not certain yet if they will decide to have a media event, but if they do I am not going alone!

I am attaching the second draft for your comments. I did it in track changes but given the amount of material that was moved around, I would strongly advise turning off the markup to review it.

Thanks
Tricia

Executive Summary v2.pdf

Executive Summary

Introduction

~~What is the purpose of the Panel? – to provide advice to the Government on the difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General~~The Panel was appointed to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

In order to provide its advice, the Panel has specifically considered

~~What question was the Panel asked to address? –~~whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan and Ontario Public Sector Employees' Union Pension Plan. This is an important question because

~~Why does it matter? –~~including or excluding the asset ~~or not~~ affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

~~How did the Panel operate? –~~The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we fully understood their thinking. The Panel then ~~did~~ performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives ~~some important background,~~ the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

~~What accounting standards apply to the Public Accounts?~~

~~Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.~~

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~~What does the PSAB pension plan standard say?~~

~~For jointly sponsored plans, the accounting requirements for a plan with only one sponsor are first applied to the whole plan. Then, each sponsor accounts for its share of the plan according to the terms of the plan. That is, the only difference between the accounting for a jointly sponsored plan and one with a single sponsor is that a joint sponsor reflects only its own share instead of the whole plan.~~

~~The accounting standard provides clear requirements on how the plan assets are to be measured and how the plan's obligation for benefits is to be determined. The Sponsors account for the net difference between the assets and obligation – either a surplus if the assets are larger than the obligation or a deficit if the obligation is larger. All the requirements for accounting for a surplus therefore apply to the accounting valuation of the plan, not the funding valuation. To base the accounting on a surplus determined in a funding valuation on a very different basis from the accounting requirements would be to mix apples and oranges.~~

~~When a surplus exists in a plan with only one sponsor, the standard assumes it clearly belongs to that sponsor unless the plan provides for an allocation. The standard does not directly address whether the sponsor of a jointly sponsored plan has an asset when there is a surplus in the plan. However,~~Both OTPP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor – in this case, the Ontario Teachers Federation or OPSEU – and an Employer Sponsor – the government. In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared.

~~t~~The Panel's analysis concludes that an ~~surplus~~ asset exists for the ~~G~~government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the excess assets in the plans can be used to reduce the contributions the ~~G~~government is required to make to the plans, freeing ~~revenue~~ cash that would otherwise be required to make contributions to be used for other purposes.
- the ~~G~~government controls access to that accounting surplus – the ~~G~~government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50~~:~~/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50~~:~~/50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. ~~In both Plans, if the surplus is not used to improve~~

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~~benefits or reduce contributions, eventually contribution reductions will be needed for the Plans to continue to comply with the requirements of the Income Tax Act.~~

- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

~~Is there any other way the joint sponsors could benefit from a surplus in the Plans?~~

The ~~PSAB~~ public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on ~~withdrawing assets~~ withdrawal.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, plans are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer needs to reflect the significant differences ~~in~~ between the legal regimes ~~applying~~ that apply to ~~the two ways of benefiting from surpluses~~contribution reductions and asset withdrawals.
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Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the ~~G~~government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the ~~G~~government will be able to benefit by the entire amount of the asset.

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Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

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Panel advice

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The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the ~~PSAB~~ public section pension accounting standard each year.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors ~~appoint people to~~ represent themselves, and their own interests, in sponsor-level ~~in~~ decision-making about the terms of the plan. ~~They also usually appoint different people~~ Sponsors typically appoint fiduciaries to an investment/administrative board to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. Sponsors on one hand and fiduciaries on administrative/investment boards on the other ~~The two groups of people~~ have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

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Pension plan valuations are prepared by actuaries. More than one type of actuarial valuation of a pension plan is required. Pension plans are regulated by the Financial

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Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

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The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. ~~All t~~Those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

22 - Executive Summary v2.docx

Executive Summary

Introduction

~~What is the purpose of the Panel? – to provide advice to the Government on the difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General~~The Panel was appointed to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

In order to provide its advice, the Panel has specifically considered

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The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives ~~some important background,~~ the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

~~What accounting standards apply to the Public Accounts?~~

~~Accounting standards for Canadian public sector entities, including governments, are set by the independent Public Sector Accounting Board. Those standards include both general standards about the concepts underlying financial statements and specific standards that determine the accounting for particular assets and liabilities. When the specific standards don't provide guidance on all the issues in accounting for the particular assets and liabilities, the government can look for help in other PSAB standards and standards set by other authorities covering the same topics.~~

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- the accounting surplus in the plan has a future economic benefit – the excess assets in the plans can be used to reduce the contributions the ~~G~~government is required to make to the plans, freeing ~~revenue~~ cash that would otherwise be required to make contributions to be used for other purposes.
- the ~~G~~government controls access to that accounting surplus – the ~~G~~government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50~~:~~/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50~~:~~/50. Each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. ~~In both Plans, if the surplus is not used to improve~~

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- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

~~Is there any other way the joint sponsors could benefit from a surplus in the Plans?~~

The ~~PSAB~~ public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on ~~withdrawing assets~~ withdrawal.

The Panel concluded that these conditions are not relevant to reducing contributions because:

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23 - EMBARGOED - Executive Summary v2.docx

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Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of actuarial valuation of a pension plan is required. Pension plans are regulated by the Financial

Services Commission of Ontario (FSCO) which ensures that they comply with the Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations ~~are the ones that~~ are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. ~~All t~~Those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

23 - Email - January 18 2017 - RE_ EMBARGOED - Revised Expert Panel Executive Summary.pdf

From:	Sullivan, Bryant (TBS)
To:	Tam, Nelson (TBS)
Subject:	RE: EMBARGOED - Revised Expert Panel Executive Summary
Date:	January-18-17 9:28:38 AM
Sensitivity:	Confidential

Thanks Nelson

From: Tam, Nelson (TBS)
Sent: January-18-17 9:06 AM
To: Sullivan, Bryant (TBS)
Subject: EMBARGOED - Revised Expert Panel Executive Summary
Importance: High
Sensitivity: Confidential

Bryant

Attached is the updated document from the Chair. Any comments is appreciated.

Thanks

Nelson
X20514

24 - Email - January 18 2017 - RE_ Report - Draft for final approval.pdf

From:	Martin, Paul (FIN)
To:	"lucy.durocher@ca.pwc.com"; Patricia O"Malley
Cc:	Murray Gold; Tam, Nelson (TBS); Uros Karadzic
Subject:	RE: Report - Draft for final approval
Date:	January-18-17 12:10:52 PM

Hi Lucy,
Read through the tracked changes document.
Only change I can suggest was on page 18 – remove the "s" from "valuations".
I am not familiar with an appropriate reference for CPA Canada's copyright material.
Many thanks,
Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 9:19 AM
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

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24 - PENSION ASSET EXPERT ADVISORY PANEL Changes Jan 18 to Jan 13.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

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Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French ~~translation~~version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education ~~and Training~~) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA~~.~~ – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. ~~There is no~~The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring ~~any~~ consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text. ~~In this report, a "contribution holiday" includes partial contribution reductions taken by the Sponsors.~~

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to ~~ensure a stable and~~ adequately ~~funded~~fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB~~).~~) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally

CONFIDENTIAL DRAFT

Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) ~~described~~describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS- 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector~~, is~~ internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000,

CONFIDENTIAL DRAFT

the objectives of financial statements in PS 1100 and relevant guidance issued by other standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability ~~purposes~~ and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements

CONFIDENTIAL DRAFT

that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. ~~Relevance is a qualitative characteristic and, by~~By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence, explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. ~~In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance~~Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

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As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk ~~concepts~~ to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRAFT

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing ~~items~~an item that ~~meet~~meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning ~~an~~and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 ~~also assists~~defines what the *expected future benefits* of a net pension asset ~~to meet~~are in satisfying the general recognition criterion~~, by defining what are *expected future benefits*~~ in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS- 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining ~~what~~ the government's portion of the JDBP ~~is~~.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach, given. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g.., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set outprovide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. This hasThese have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. ~~The funding surplus is not the same as~~ For accounting purposes, the net pension asset ~~for accounting purposes, however~~ is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that ~~one~~ Sponsor A has taken a benefit by utilizing their RSF and ~~the other~~ Sponsor B has not, ~~the remaining interest in the plan may no longer~~ Sponsor A's share of the net pension asset would be ~~an exact 50% interest~~ reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250

CONFIDENTIAL DRAFT

to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably ~~portioned~~apportioned between the two sponsors, as equitable sharing of risks and ~~benefits~~rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above ~~position~~ is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service ~~(~~, that is a contribution holiday~~),~~, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible

CONFIDENTIAL DRAFT

claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of ~~Canadian~~Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. ~~In such circumstances~~When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their

CONFIDENTIAL DRAFT

own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be ~~against~~contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP ~~indicate~~indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset ~~accrue~~accrues to the joint sponsors~~-~~, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While ~~there is~~ uncertainty ~~regarding~~exists about the measurement of a net pension asset, there is no uncertainty ~~as to~~about whether the plan exists, and therefore about the ~~underlying~~ existence of any estimated net pension asset ~~as an economic resource~~. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent,

CONFIDENTIAL DRAFT

such as ~~changes to the Plan agreements or~~ regulatory approvals, ~~that~~nor are ~~needed to occur for~~there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors ~~to be able to~~can jointly benefit from any surplus assets in the plan~~ through contribution reductions~~.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus ~~and~~which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

CONFIDENTIAL DRAFT

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions ~~and holidays~~ as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also ~~support~~indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in ~~a~~the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled ~~asset~~resource can never meet the ~~recognition~~ criteria ~~for~~to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or

CONFIDENTIAL DRAFT

from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

Panel view – Issue 3

Unilateral control ~~in~~of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and ~~benefits~~rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, ~~then~~ by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS- 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and ~~benefits~~rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized ~~for an asset~~ is

CONFIDENTIAL DRAFT

recoverable – that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the ~~government~~government's recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS- 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains ~~as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250~~. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

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 [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued

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CONFIDENTIAL DRAFT

benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS- 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions- (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to ~~exist~~withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal ~~or surplus.~~ of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that ~~these requirements~~the paragraph 59requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). ~~Legally speaking, and consistent with the plan texts of OTPP and OPSEUPP, a contribution~~

CONFIDENTIAL DRAFT

~~holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. No regulatory approvals are required for the Sponsors to take contribution reductions in the Plans, although they would be for the Sponsors to withdraw from the plan (in the case of OPSEUPP, surplus withdrawals are specifically prohibited).~~ Therefore, in the Panel's view, it is not appropriate to ~~analogize~~apply the guidance in paragraph 59 ~~on~~regarding withdrawal ~~on~~of plan surpluses ~~that is specific to the legal circumstances surrounding those transactions~~ to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already ~~effective. The~~current and in effect. These plan arrangements do not require ~~a change~~any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 ~~was~~were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors~~, however~~. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its

CONFIDENTIAL DRAFT

RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The

CONFIDENTIAL DRAFT

Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return ~~of~~on assets rate.

Panel View – Issue 2

The ~~application of the~~ guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1*, the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any

CONFIDENTIAL DRAFT

funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions ~~are~~is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" ~~is not sustainable for perpetuity~~contribution rates to remain in place indefinitely if ~~it results~~they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are ~~therefore~~ dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, ~~whereby the plan mechanisms~~

CONFIDENTIAL DRAFT

~~mean~~where the government's contribution rates are subject to a pre-determined ~~based on~~narrow fixed range as set out in the plan's governing documents. The ability for the ~~plan formulas and cannot be changed under the current plan arrangements.~~government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that ~~it~~ would otherwise be required ~~to make~~ indicating there are no required employee contributions, regardless of any surplus.

Panel view – ~~Measurement –~~ Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and ~~OPSEU~~OPSEUPP, based on different assumptions regarding what ~~the~~ minimum contributions were required under each plan~~.~~ "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

CONFIDENTIAL DRAFT

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that:

- For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.
- For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" ~~for OTPP beyond the next actuarial filing for either plan.~~ beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be used to reduce the minimum employer or employee contributions (as applicable) that are expected to be made until the next funding valuation is filed.

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Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays ~~and therefore~~. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. ~~In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus.~~ As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions~~,~~ (if any) and government minimum contributions (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

CONFIDENTIAL DRAFT

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and ~~a~~the recognition guidance in PS 1000~~, making~~. Such conceptual inconsistency makes it more difficult to apply ~~such~~the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements ~~to~~and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available~~.~~ sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider ~~how~~the concepts underlying the discount rate used ~~to measure the accrued benefit obligation can best capture the risks inherent in the obligation, which may align more closely with the approach taken by other standard setters~~in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards -

from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

[2] [insert appropriate footnote regarding CPA Canada copyright here].

CONFIDENTIAL DRAFT

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

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PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

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CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

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PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units [5] except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

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CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

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PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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24 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 18.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS

CONFIDENTIAL DRAFT

3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence, explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRA

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government's portion of the JDBP.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

CONFIDENTIAL DRAFT

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that the paragraph 59requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel

CONFIDENTIAL DRAFT

observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses “The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made.” This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

CONFIDENTIAL DRAFT

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as

CONFIDENTIAL DRAFT

the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

CONFIDENTIAL DRAFT

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that:

- For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.
- For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be used to reduce the minimum employer or employee

CONFIDENTIAL DRAFT

contributions (as applicable) that are expected to be made until the next funding valuation is filed.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

CONFIDENTIAL DRAFT

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All materials from the CPA Canada Public Sector Accounting Handbook are copyright to CPA Canada [ensure appropriate reference regarding CPA Canada copyright is made].

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

25 - Email - January 18 2017 - RE_ Report - Draft for final approval.pdf

From:	Martin, Paul (FIN)
To:	"lucy.durocher@ca.pwc.com"; Patricia O"Malley
Cc:	Murray Gold; Tam, Nelson (TBS); Uros Karadzic
Subject:	RE: Report - Draft for final approval
Date:	January-18-17 12:14:36 PM

Sounds like a big job to edit given our current timelines.
I suggest we hold the course and leave as is.
Sincerely,
Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 11:35 AM
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Re: Report - Draft for final approval

I think it's a valid question and would appreciate panel feedback.

A few words on the thought process so the panel can advise:
Paragraph .59 relates to guidance in the "Asset ceiling Test", which is a measurement test - hence why it is in the measurement section. The Panel supports why, conceptually, there is an asset to be recognized and then looks to the specific guidance in .50-.59 on measuring it.
However, there is some overlap with the concepts of the recognition section and ability to benefit, in part because the older standards don't separate out "recognition" from "measurement" in the same way that newer standards do (a standard setting development which I think is helpful), and so there are some recognition concepts ("expected future benefits") in 50-.59 that are dressed up as measurement concepts because they are included in the valuation test guidance. Specifically, for surplus withdrawal that one can only "recognize" the benefit of it when it meets certain criteria that are more closely aligned to recognition concepts, but it is a sub-part of a broader measurement test as it is not the only way one can support the measurement of a net pension asset.

The AG is using .59 as a recognition test, and applying it to all aspects of the net pension asset. In the section on this, one of the major points the Panel makes is that this guidance does apply only to surplus withdrawals, and is part of the broader measurement guidance. While this creates some repetition in the paper because the same arguments are used to support recognition (conceptually) and the application of the specific measurement guidance I tend to think it is necessary because the same facts are addressing two different aspects. If we only addressed .59 in the recognition section, then I'm not sure how we would address that we think it does not apply to contribution reductions in applying the .56 (a) guidance, which is clearly a measurement issue.

Therefore, I recommend to the Panel that it is left where it is. However, if the Panel wishes it to be moved, I think it is feasible, but may require substantive editorial changes in order to put the discussion in context in the measurement section to ensure that the report remains complete.

Lucy

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From: "Patricia O'Malley" <plomalley@outlook.com>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>

Date: 01/18/2017 09:02 AM
Subject: Re: Report - Draft for final approval

Thanks Lucy. I think we are almost there.

As we review this I'd like us all to think about whether the first section on measurement -- about para 59 -- is really in the right place. This has occurred to me as I have been doing the briefings to various ministers (and the premier coming up this morning). I have come to believe it should be in recognition.

In the recognition section we have done a thorough analysis of the asset definition. However, the AG seems to be relying almost exclusively on the conditions in para 59 which we think is not applicable. On further thought, that discussion does not seem to have much to do with the "how much?" question but is directly relevant to the "whether" one.

Thoughts?

I don't believe it would require many changes other than some cross-referencing to move it, but if Lucy says it would be a big job we will leave it where it is!

Nelson also suggests that we leave it for a day and then read a clean version cold.

Cheers!

Tricia O'Malley
Mobile +1(416) 570 1924

From: lucy.durocher@ca.pwc.com
Sent: Wednesday, January 18, 2017 08:18
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

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25A - Email - January 18 2017 - RE_ Report - Draft for final approval.pdf

From: Patricia O"Malley
To: Murray Gold; Patricia O"Malley; lucy.durocher@ca.pwc.com
Cc: Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: RE: Report - Draft for final approval
Date: January-18-17 3:09:39 PM
Attachments: image001.png

I think that is exactly the point we want to make. Thanks!!

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: 18-Jan-17 14:46
To: Patricia O'Malley <plomalley@outlook.com>; lucy.durocher@ca.pwc.com
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Report - Draft for final approval

Do we want to consider the argument that s59 may raise a recognition issue if we are dealing with a withdrawal, because if there is no legal right to withdraw then there is no asset.

But we argue that 59 has nothing to do with a contribution holiday. And so it doesn't raise a recognition issue for us.

KOSKIE MINSKY
JUSTICE MATTERS

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 18 January 2017 23:05, "Patricia O'Malley" <plomalley@outlook.com> wrote:

Thanks Lucy

I understand the logic and agree that it should stay where it is, especially if you think substantial rewriting would be needed! Perhaps something to the effect of your note in the measurement section would be sufficient. Along the lines of:

> The Panel included this discussion in the measurement section because it is in the part of the pension standard dealing with the valuation of the asset. However, because para 59 tells you what conditions must be satisfied for the benefit of a surplus withdrawal to be recognized, it would also have been possible to consider this a recognition issue and discuss it as such.

I will have a think about whether that is needed as I review.
Tricia

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: 18-Jan-17 10:35
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN)

<Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Report - Draft for final approval

I think it's a valid question and would appreciate panel feedback.

A few words on the thought process so the panel can advise:
Paragraph .59 relates to guidance in the "Asset ceiling Test", which is a measurement test - hence why it is in the measurement section. The Panel supports why, conceptually, there is an asset to be recognized and then looks to the specific guidance in .50-.59 on measuring it.
However, there is some overlap with the concepts of the recognition section and ability to benefit, in part because the older standards don't separate out "recognition" from "measurement" in the same way that newer standards do (a standard setting development which I think is helpful), and so there are some recognition concepts ("expected future benefits") in 50-.59 that are dressed up as measurement concepts because they are included in the valuation test guidance. Specifically, for surplus withdrawal that one can only "recognize" the benefit of it when it meets certain criteria that are more closely aligned to recognition concepts, but it is a sub-part of a broader measurement test as it is not the only way one can support the measurement of a net pension asset.

The AG is using .59 as a recognition test, and applying it to all aspects of the net pension asset. In the section on this, one of the major points the Panel makes is that this guidance does apply only to surplus withdrawals, and is part of the broader measurement guidance. While this creates some repetition in the paper because the same arguments are used to support recognition (conceptually) and the application of the specific measurement guidance I tend to think it is necessary because the same facts are addressing two different aspects. If we only addressed .59 in the recognition section, then I'm not sure how we would address that we think it does not apply to contribution reductions in applying the .56 (a) guidance, which is clearly a measurement issue.

Therefore, I recommend to the Panel that it is left where it is. However, if the Panel wishes it to be moved, I think it is feasible, but may require substantive editorial changes in order to put the discussion in context in the measurement section to ensure that the report remains complete.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Patricia O'Malley" <plomalley@outlook.com>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>
Date: 01/18/2017 09:02 AM
Subject: Re: Report - Draft for final approval

Thanks Lucy. I think we are almost there.

As we review this I'd like us all to think about whether the first section on measurement -- about para 59 -- is really in the right place. This has occurred to me as I have been doing the briefings to various ministers (and the premier coming up this morning). I have come to believe it should be in recognition.

In the recognition section we have done a thorough analysis of the asset definition. However, the AG seems to be relying almost exclusively on the conditions in para 59 which we think is not applicable. On further thought, that discussion does not seem to have much to do with the "how much?" question but is directly relevant to the "whether" one.

Thoughts?

I don't believe it would require many changes other than some cross-referencing to move it, but if Lucy says it would be a big job we will leave it where it is!

Nelson also suggests that we leave it for a day and then read a clean version cold.

Cheers!

Tricia O'Malley
Mobile +1(416) 570 1924

From: lucy.durocher@ca.pwc.com
Sent: Wednesday, January 18, 2017 08:18
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
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MINSKY
JUSTICE MATTERS

25B - Email - January 18 2017 - RE_ Report - Draft for final approval.pdf

From: Uros Karadzic
To: lucy.durocher@ca.pwc.com; Murray Gold
Cc: Tam, Nelson (TBS); Martin, Paul (FIN); Patricia O"Malley
Subject: RE: Report - Draft for final approval
Date: January-18-17 3:18:58 PM
Attachments: image001.png

I'm good with this approach too

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 2:51 PM
To: Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Patricia O'Malley <plomalley@outlook.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Report - Draft for final approval

I agree that perhaps what is needed is one extra sentence to explain our thinking more clearly.
I like Murray's explanation as to how to tie it back to recognition issues while keeping it in measurement. I will think more about how to draft and may circulate some wording separately for consideration.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
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From: Murray Gold <mgold@kmlaw.ca>

To: "Patricia O'Malley" <plomalley@outlook.com>, Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>

Date: 01/18/2017 02:46 PM
Subject: Re: Report - Draft for final approval

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KOSKIE MINSKY
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Murray Gold
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T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 18 January 2017 23:05, "Patricia O'Malley" <plomalley@outlook.com> wrote:

Thanks Lucy

I understand the logic and agree that it should stay where it is, especially if you think substantial rewriting would be needed! Perhaps something to the effect of your note in the measurement section would be sufficient. Along the lines of:

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Sent: 18-Jan-17 10:35
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
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Lucy

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Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>
Date: 01/18/2017 09:02 AM
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Cheers!

Tricia O'Malley

Mobile +1(416) 570 1924

From: lucy.durocher@ca.pwc.com
Sent: Wednesday, January 18, 2017 08:18
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Report - Draft for final approval

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

image001_1.pdf


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MINSKY
JUSTICE MATTERS

25C - Email - January 19 2017 - RE_ Report - Draft for final approval.pdf

From:	Murray Gold
To:	Martin, Paul (FIN); Uros Karadzic; lucy.durocher@ca.pwc.com
Cc:	Tam, Nelson (TBS); Patricia O"Malley
Subject:	Re: Report - Draft for final approval
Date:	January-19-17 8:57:52 AM
Attachments:	image001.png logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

I agree.

KOSKIE MINSKY
JUSTICE MATTERS

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 19 January 2017 17:51, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca> wrote:

Agreed. Looks good!

Paul

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: Thursday, January 19, 2017 9:50 AM
To: lucy.durocher@ca.pwc.com; Murray Gold
Cc: Tam, Nelson (TBS); Martin, Paul (FIN); Patricia O'Malley
Subject: RE: Report - Draft for final approval

Looks good to me!

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Thursday, January 19, 2017 8:16 AM
To: Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Patricia O'Malley <plomalley@outlook.com>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Report - Draft for final approval

Here is my suggested revised wording for measurement Issue 1 to acknowledge the linking between recognition and measurement for withdrawal of surplus, but not for contribution holidays.

Measurement issue 1

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

If the standards required a net pension asset to be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would raise a recognition issue as there would be no ability to benefit from the expected future benefits of surplus withdrawal without a legally enforceable right. However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset can be measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel’s view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

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From: Murray Gold <mgold@kmlaw.ca>
To: "Patricia O'Malley" <plomalley@outlook.com>, Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>
Date: 01/18/2017 02:46 PM
Subject: Re: Report - Draft for final approval

Do we want to consider the argument that s59 may raise a recognition issue if we are dealing with a withdrawal, because if there is no legal right to withdraw then there is no asset.

But we argue that 59 has nothing to do with a contribution holiday. And so it doesn't raise a recognition issue for us.

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On: 18 January 2017 23:05, "Patricia O'Malley" <plomalley@outlook.com> wrote:

Thanks Lucy

I understand the logic and agree that it should stay where it is, especially if you think substantial rewriting would be needed! Perhaps something to the effect of your note in the measurement section would be sufficient. Along the lines of:

The Panel included this discussion in the measurement section because it is in the part of the pension standard dealing with the valuation of the asset. However, because para 59 tells you what conditions must be satisfied for the benefit of a surplus withdrawal to be recognized, it would also have been possible to consider this a recognition issue and discuss it as such.

I will have a think about whether that is needed as I review.

Tricia

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: 18-Jan-17 10:35
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Re: Report - Draft for final approval

I think it's a valid question and would appreciate panel feedback.

A few words on the thought process so the panel can advise:
Paragraph .59 relates to guidance in the "Asset ceiling Test", which is a measurement test - hence why it is in the measurement section. The Panel supports why, conceptually, there is an asset to be recognized and then looks to the specific guidance in .50-.59 on measuring it.
However, there is some overlap with the concepts of the recognition section and ability to benefit, in part because the older standards don't separate out "recognition" from "measurement" in the same way that newer standards do (a standard setting development which I think is helpful), and so there are some recognition concepts ("expected future benefits") in 50-.59 that are dressed up as measurement concepts because they are included in the valuation test guidance. Specifically, for surplus withdrawal that one can only "recognize" the benefit of it when it meets certain criteria that are more closely aligned to recognition concepts, but it is a sub-part of a broader measurement test as it is not the only way one can support the measurement of a net pension asset.

The AG is using .59 as a recognition test, and applying it to all aspects of the net pension asset. In the section on this, one of the major points the Panel makes is that this guidance does apply only to surplus withdrawals, and is part of the broader measurement guidance. While this creates some repetition in the paper because the same arguments are used to support recognition (conceptually) and the application of the specific measurement guidance I tend to think it is necessary because the same facts are addressing two different aspects. If we only addressed .59 in the recognition section, then I'm not sure how we would address that we think it does not apply to contribution reductions in applying the .56 (a) guidance, which is clearly a measurement issue.

Therefore, I recommend to the Panel that it is left where it is. However, if the Panel wishes it to be moved, I think it is feasible, but may require substantive editorial changes in order to put the discussion in context in the measurement section to ensure that the report remains complete.

Lucy

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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
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Date: 01/18/2017 09:02 AM
Subject: Re: Report - Draft for final approval

Thanks Lucy. I think we are almost there.

As we review this I'd like us all to think about whether the first section on measurement -- about

para 59 -- is really in the right place. This has occurred to me as I have been doing the briefings to various ministers (and the premier coming up this morning). I have come to believe it should be in recognition.

In the recognition section we have done a thorough analysis of the asset definition. However, the AG seems to be relying almost exclusively on the conditions in para 59 which we think is not applicable. On further thought, that discussion does not seem to have much to do with the "how much?" question but is directly relevant to the "whether" one.

Thoughts?

I don't believe it would require many changes other than some cross-referencing to move it, but if Lucy says it would be a big job we will leave it where it is!

Nelson also suggests that we leave it for a day and then read a clean version cold.

Cheers!

Tricia O'Malley
Mobile +1(416) 570 1924

From: lucy.durocher@ca.pwc.com
Sent: Wednesday, January 18, 2017 08:18
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

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26 - Email - January 19 2017 - RE_ Report - Draft for final approval.pdf

From:	Uros Karadzic
To:	lucy.durocher@ca.pwc.com; Patricia O"Malley
Cc:	Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN)
Subject:	RE: Report - Draft for final approval
Date:	January-19-17 10:34:48 AM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 18 - UK edits.docx

Hi Lucy,

I've taken a look at this final draft, focusing on the new wording. I have two changes in the attached:

- Page 11: fixing a minor typo
- Page 30/31: the new wording seemed to be implying that there were no minimum required contributions beyond the next valuation. I think we should remove this and simply focus on there being no "minimum required contributions regardless of any surplus" at all. The broader statement is not accurate (it would contradict how the firms interpret IFRIC 14 in practice, which looks at the minimum funding requirements beyond the next valuation), but more importantly it is also not necessary for our conclusion. PSAS is only concerned with minimum funding requirements regardless of any surplus and that what we can safely say does not exist.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 8:19 AM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
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Regards,
Lucy

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

PENSION ASSET EXPERT ADVISORY PANEL Draft for.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

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Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

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The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS

CONFIDENTIAL DRAFT

3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRAFT

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government's portion of the JDBP.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that the paragraph 59requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel

CONFIDENTIAL DRAFT

observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses “The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made.” This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

CONFIDENTIAL DRAFT

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as

CONFIDENTIAL DRAFT

the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that for either OTPP or OPSEUPP there are no "minimum contributions regardless of any surplus":

- ~~For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.~~

- ~~For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be~~

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CONFIDENTIAL DRAFT

~~used to reduce the minimum employer or employee contributions (as applicable) that are expected to be made until the next funding valuation is filed.~~

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus ~~for periods beyond the next required funding valuation~~.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All materials from the CPA Canada Public Sector Accounting Handbook are copyright to CPA Canada [ensure appropriate reference regarding CPA Canada copyright is made].

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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26 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 18 - UK edits.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

CONFIDENTIAL DRAFT

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers have matched the members' contributions, based on the members' contributions in the year before the preceding year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS

CONFIDENTIAL DRAFT

3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRAFT

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government's portion of the JDBP.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that the paragraph 59requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel

CONFIDENTIAL DRAFT

observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses “The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made.” This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

CONFIDENTIAL DRAFT

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as

CONFIDENTIAL DRAFT

the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that for either OTPP or OPSEUPP there are no "minimum contributions regardless of any surplus":

- ~~For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.~~

- ~~For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be~~

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CONFIDENTIAL DRAFT

~~used to reduce the minimum employer or employee contributions (as applicable) that are expected to be made until the next funding valuation is filed.~~

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus ~~for periods beyond the next required funding valuation~~.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All materials from the CPA Canada Public Sector Accounting Handbook are copyright to CPA Canada [ensure appropriate reference regarding CPA Canada copyright is made].

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

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Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

27 - Email - January 19 2017 - Re_ Report - Draft for final approval.pdf

From: lucy.durocher@ca.pwc.com
To: Tam, Nelson (TBS)
Cc: Patricia O"Malley (plomalley@outlook.com)
Subject: Re: Report - Draft for final approval
Date: January-19-17 7:27:27 PM
Attachments: PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 18 with NT.docx

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Thank you for your comments. See below for some responses.

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From: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Patricia O'Malley (plomalley@outlook.com)" <plomalley@outlook.com>
Date: 01/19/2017 03:10 PM
Subject: Report - Draft for final approval

Lucy

I didn't copy the entire panel other than the Chair. My changes are minor wording changes.

- Comment on the Ontario Pension Benefits Act – the actual Act does not have the word Ontario in front of it so I deleted and deleted Ontario from the "Ontario PBA". You can keep the "Ontario PBA" if you want but the official Act name should be changed.

I kept Ontario PBA as the shortform as I think it is helpful, but I have accepted your changes to the official Act name.

- There were some passive tense – "have" & "has" which I deleted

Thank you. The fewer words the better.

- There was one paragrah which I don't know if you intended to para phrase or from the superceded/current section. I flagged for you. If it is para phrase, then "Based on" should be used.

It is a direct excerpt from the currently effective Section 1000. I have changed the formatting so it is more consistent with where we have taken direct extracts.

As we wait for CPA regarding the copyright issue, I was copying the French equivalent and noticed in some sections it has a date in square brackets. When we are copying straight from the standards should we keep the square brackets with the

date to be consistent with the HB?

Made an editorial decision to omit these from the text. They relate to the issue date and do not relate to the pronouncement wording themselves so it seems irrelevant to include.

Thanks

Nelson
416-212-0514

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PENSION ASSET EXPERT ADVISORY PANEL Draft for_1.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the ~~*Ontario* *Pension Benefits Act* (the "Ontario~~ PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government ~~has~~ entered into

Commented [NT1]: The official act has no reference to Ontario in it so I suggest removing it. If you want to keep "Ontario PBA" throughout the document it is fine but when we reference the Act it should be exact.

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

pension plan for regulatory purposes under the ~~Ontario~~ PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the ~~Ontario~~ PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers ~~have~~ matched the members' contributions, based on the members' contributions in the year before the preceding year. This ~~has~~ resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the ~~Ontario~~ PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the ~~Ontario~~ PBA – any deficiency must be funded and any surplus must be utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors ~~have~~ implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors ~~have~~ agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the ~~Ontario~~ PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the ~~Ontario~~ PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the ~~Ontario~~ PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Bb~~b~~enefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and ~~that~~ provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence, explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

Commented [NT2]: Is this a para phrase of the actual standard? This is different from the current section and the superceded section. If yes, maybe used "based on PS1000.36 which you have used in other parts of the report.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRAFT

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government's portion of the JDBP.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the ~~Ontario~~ PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the ~~Ontario~~ PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the ~~Ontario~~ PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that the paragraph 59 requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel

CONFIDENTIAL DRAFT

observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses “The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made.” This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

CONFIDENTIAL DRAFT

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as

CONFIDENTIAL DRAFT

the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Commented [NT3]: Should this be *Income Tax Act (Canada)*?

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that:

- For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.
- For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be used to reduce the minimum employer or employee

CONFIDENTIAL DRAFT

contributions (as applicable) that are expected to be made until the next funding valuation is filed.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

CONFIDENTIAL DRAFT

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act ~~(Ontario)~~,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act ~~(Ontario)~~,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All materials from the CPA Canada Public Sector Accounting Handbook are copyright to CPA Canada [ensure appropriate reference regarding CPA Canada copyright is made].

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

FINAL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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27 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 18 with NT.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the ~~*Ontario* *Pension Benefits Act* (the "Ontario~~ PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government ~~has~~ entered into

Commented [NT1]: The official act has no reference to Ontario in it so I suggest removing it. If you want to keep "Ontario PBA" throughout the document it is fine but when we reference the Act it should be exact.

CONFIDENTIAL DRAFT

contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

pension plan for regulatory purposes under the ~~Ontario~~ PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the ~~Ontario~~ PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers ~~have~~ matched the members' contributions, based on the members' contributions in the year before the preceding year. This ~~has~~ resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the ~~Ontario~~ PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the ~~Ontario~~ PBA – any deficiency must be funded and any surplus must be utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors ~~have~~ implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors ~~have~~ agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the ~~Ontario~~ PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the ~~Ontario~~ PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the ~~Ontario~~ PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Bb~~b~~enefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and ~~that~~ provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence, explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.36]

Commented [NT2]: Is this a para phrase of the actual standard? This is different from the current section and the superceded section. If yes, maybe used "based on PS1000.36 which you have used in other parts of the report.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under

CONFIDENTIAL DRAFT

accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

CONFIDENTIAL DRAFT

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government's portion of the JDBP.

CONFIDENTIAL DRAFT

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the ~~Ontario~~ PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the ~~Ontario~~ PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the ~~Ontario~~ PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuations incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

The Panel believes that the paragraph 59 requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel

CONFIDENTIAL DRAFT

observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses “The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made.” This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

CONFIDENTIAL DRAFT

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as

CONFIDENTIAL DRAFT

the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Commented [NT3]: Should this be *Income Tax Act (Canada)*?

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that:

- For OTPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan.
- For OPSEUPP there are no "minimum contributions regardless of any surplus" and therefore also no "required employee contributions" beyond the next actuarial filing for the Plan. To the extent that a Sponsor has a balance in their RSF this may also be used to reduce the minimum employer or employee

CONFIDENTIAL DRAFT

contributions (as applicable) that are expected to be made until the next funding valuation is filed.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

CONFIDENTIAL DRAFT

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act ~~(Ontario)~~,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act ~~(Ontario)~~,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All materials from the CPA Canada Public Sector Accounting Handbook are copyright to CPA Canada [ensure appropriate reference regarding CPA Canada copyright is made].

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

FINAL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

27A - Email - January 19 2017 - RE_ OPSEUPP Government Representative.pdf

From:	Killoch, Alex (MOF)
To:	Tam, Nelson (TBS); Pomykacz, Rob (MOF)
Subject:	RE: OPSEUPP Government Representative
Date:	January-19-17 9:55:35 AM

That sounds correct

From: Tam, Nelson (TBS)
Sent: Thursday, January 19, 2017 9:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OPSEUPP Government Representative

Alex, Rob

For the OPSEUPP, is the government represented by the “Chair of the Management Board of Cabinet” as the employer sponsor?

I am reviewing the report, and wanted to verify.

Thanks

Nelson
X20514

27B - Email - January 19 2017 - RE_ OPSEUPP Government Representative.pdf

From: Pomykacz, Rob (MOF)
To: Tam, Nelson (TBS); Killoch, Alex (MOF)
Subject: RE: OPSEUPP Government Representative
Date: January-19-17 10:01:17 AM

Hi Nelson,

I'll ask the TBS pension folks to confirm. I'll let you know as soon as I hear back from them.

Rob

From: Tam, Nelson (TBS)
Sent: January 19, 2017 9:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OPSEUPP Government Representative

Alex, Rob

For the OPSEUPP, is the government represented by the "Chair of the Management Board of Cabinet" as the employer sponsor?

I am reviewing the report, and wanted to verify.

Thanks

Nelson
X20514

27C - Email - January 19 2017 - FW_ OPSEUPP Government Representative.pdf

From: Pomykacz, Rob (MOF)
To: Tam, Nelson (TBS)
Cc: Killoch, Alex (MOF)
Subject: FW: OPSEUPP Government Representative
Date: January-19-17 1:32:33 PM

Hi Nelson,

Please find the verification that you were looking for.

Thanks,
Rob

From: Elstone, Karen (TBS)
Sent: January 19, 2017 11:51 AM
To: Pomykacz, Rob (MOF)
Subject: RE: OPSEUPP Government Representative

Hi Rob

All the originating documents (sponsorship agreement, trust agreement) say '..Province of Ontario as Represented by the Chair of Management Board of Cabinet'

However, there is an OIC in 2014 that indicates that 'The President of Treasury Board shall exercise the powers and perform the duties, functions and responsibilities that are assigned by law to the Chair of the Management Board of Cabinet…'

I'm not sure what report Nelson is looking at and the context, but yes that it is correct.

From: Pomykacz, Rob (MOF)
Sent: January 19, 2017 10:03 AM
To: Elstone, Karen (TBS)
Subject: FW: OPSEUPP Government Representative

Hi Karen,

Could you please confirm what is being asked below?

Thanks!

Rob

From: Tam, Nelson (TBS)
Sent: January 19, 2017 9:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OPSEUPP Government Representative

Alex, Rob

For the OPSEUPP, is the government represented by the “Chair of the Management Board of Cabinet” as the employer sponsor?

I am reviewing the report, and wanted to verify.

Thanks

Nelson
X20514

28 - Email - January 19 2017 - RE_ [Not Virus Scanned] RE_ Report - Draft for final approval.pdf

From:	Patricia O"Malley
To:	lucy.durocher@ca.pwc.com; Uros Karadzic
Cc:	Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN)
Subject:	RE: [Not Virus Scanned] RE: Report - Draft for final approval
Date:	January-19-17 11:21:42 AM

View B is what I thought we had agreed on and what I have been telling the government people in the briefings.

Yes the contributions can be changed by negotiation, but that negotiation is only required every 3 years. Beyond the next valuation, no minimum contributions are required.

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: 19-Jan-17 11:05
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Patricia O'Malley <plomalley@outlook.com>
Subject: Re: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Uros.

We have been a bit back and forth on whether there is no "minimum contributions required regardless of any surplus" or whether there are no minimum requirements regardless of any surplus past the date of the next actuarial valuation.

One might view the agreements to be that the amounts of contributions have been agreed upon between the two parties and therefore are fixed (i.e. minimum contributions) until the next date when they can be renegotiated, which, for both OPSEUPP and OTPP I understand would be the filing of an actuarial valuation.

While actuarial valuations can be filed more regularly then once every three years, it would be by mutual agreement - they don't have to be. Therefore I had understood the view of the Panel as discussed at the last Panel meeting to be that there were no minimum contributions to be made regardless of any surplus after the next valuation date (i.e. maximum of three years minimum contributions).

There has been an amount of back and forth in the drafting over this point, so it may be that I have not understood the Panel's views.

Please can the Panel advise as to whether the view is:

A) No minimum contributions required.
B) No minimum contributions required after the next valuation filing date (date of renegotiation).

If we do not have consensus then I suggest we may need to set up a call to resolve this issue as while it does not change the end result (no valuation allowance required), it requires very different drafting and are fundamentally different interpretations of the standard requirements as they are applied to the Plan facts.

Lucy

Lucy Durocher
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http://www.pwc.com/ca

From: Uros Karadzic <uros.karadzic@ca.ey.com>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Patricia O'Malley" <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Date: 01/19/2017 10:34 AM
Subject: [Not Virus Scanned] RE: Report - Draft for final approval

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Hi Lucy,

I've taken a look at this final draft, focusing on the new wording. I have two changes in the attached:

- Page 11: fixing a minor typo
- Page 30/31: the new wording seemed to be implying that there were no minimum required contributions beyond the next valuation. I think we should remove this and simply focus on there being no "minimum required contributions regardless of any surplus" at all. The broader statement is not accurate (it would contradict how the firms interpret IFRIC 14 in practice, which looks at the minimum funding requirements beyond the next valuation), but more importantly it is also not necessary for our conclusion. PSAS is only concerned with minimum funding requirements regardless of any surplus and that what we can safely say does not exist.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 8:19 AM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the

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Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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28A - Email - January 19 2017 - RE_ [Not Virus Scanned] RE_ Report - Draft for final approval.pdf

From:	Uros Karadzic
To:	lucy.durocher@ca.pwc.com
Cc:	Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Patricia O"Malley
Subject:	RE: [Not Virus Scanned] RE: Report - Draft for final approval
Date:	January-19-17 11:32:10 AM

Hi Lucy,

My view is (C) There are no “minimum contributions the government is required to make regardless of any surplus”

There are no “MCRRS” (for short) for any period, since:

- there are no scenarios that we foresee requiring them, such as contribution floors like in New Brunswick, or requirement to match employee contributions that do not change (eg. like the 4% for OPG)
- at least for OTPP, there is also no “surplus” given that the funding reports are always filed with 0 surplus/deficit

But there are “minimum contributions required”, certainly to the next valuation, and likely beyond if we applied IFRIC14 interpretations we see in practice that only deal with minimum funding requirements (but do not have “regardless of any surplus” language like PSAS). But arguing this point is unnecessary since PSAS does not require this higher threshold.

If we ignored the advantage of “regardless of any surplus” language in PSAS, we are far more likely to run into asset ceiling issues.

Happy to jump on a call if needed.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Thursday, January 19, 2017 11:05 AM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Patricia O'Malley <plomalley@outlook.com>
Subject: Re: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Uros.

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One might view the agreements to be that the amounts of contributions have been agreed upon between the two parties and therefore are fixed (i.e. minimum contributions) until the next date when they can be renegotiated, which, for both OPSEUPP and OTPP I understand would be the filing of an actuarial valuation.

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There has been an amount of back and forth in the drafting over this point, so it may be that I have not understood the Panel's views.

Please can the Panel advise as to whether the view is:

A) No minimum contributions required.
B) No minimum contributions required after the next valuation filing date (date of renegotiation).

If we do not have consensus then I suggest we may need to set up a call to resolve this issue as while it does not change the end result (no valuation allowance required), it requires very different drafting and are fundamentally different interpretations of the standard requirements as they are applied to the Plan facts.

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To: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Patricia O'Malley" <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Date: 01/19/2017 10:34 AM
Subject: [Not Virus Scanned] RE: Report - Draft for final approval

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From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 8:19 AM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
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28B - Email - January 19 2017 - Re_ [Not Virus Scanned] RE_ Report - Draft for final approval.pdf

From: Murray Gold
To: Uros Karadzic; Patricia O"Malley; Martin, Paul (FIN); lucy.durocher@ca.pwc.com
Cc: Tam, Nelson (TBS)
Subject: Re: [Not Virus Scanned] RE: Report - Draft for final approval
Date: January-19-17 4:49:08 PM
Attachments: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Fine by me. Thanks.

KOSKIE MINSKY
JUSTICE MATTERS

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

On: 19 January 2017 23:12, "Uros Karadzic" <uros.karadzic@ca.ey.com> wrote:

Hi Tricia,

Thanks for clarifying. I would agree with you and go one step further: I would say that we don't have any "required contributions regardless of any surplus" to the time of the next valuation either, because there is currently no surplus in either plan. So these are "minimum required contributions" but they are not "minimum required contributions regardless of any surplus" in my mind. This distinction is key when it comes to applying the asset ceiling calculation.

The language in the latest draft seemed to be making a distinction between the two. I suggest we drop any and all references to "minimum contributions" and solely use PSAS language of "minimum required regardless of any surplus" in all instances to avoid confusion or misinterpretation.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

---

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Thursday, January 19, 2017 1:45 PM
To: Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

Sorry, when I answered before I was assuming "regardless of any surplus" was implicit in both A and B. I for one do not want to go anywhere near something that would take us into IFRIC-14 territory. I still

think that the contributions to the next valuation have to be made “regardless of any surplus”, but after that there are no minimum contributions.

From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: 19-Jan-17 13:36
To: 'Uros Karadzic' <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I would agree that we should be sticking to PSAS language when possible.
Regards,
Paul

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: Thursday, January 19, 2017 2:01 PM
To: Martin, Paul (FIN); 'lucy.durocher@ca.pwc.com'; Patricia O'Malley; Murray Gold
Cc: Tam, Nelson (TBS)
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

My concern is that if we drop “regardless of any surplus” then we are essentially in the IFRIC 14 territory. And there we would typically look past the next valuation date to determine minimum funding requirements more holistically. This would make both (A) and (B) incorrect.

Rather than diving into analysis now on whether OTPP/OPSEUPP have facts and circumstances that would have them clear IFRIC14-type hurdles, I think we should just stick with PSAS language and keep referring to minimum funding requirements “regardless of any surplus”.

Again, happy to get on a call later today if necessary (5pm ET or later).

Uros

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From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: Thursday, January 19, 2017 12:37 PM
To: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I think both A and B are correct depending on the context of the discussion.

Stating "…after the next valuation filing date (date of renegotiation)" serves as the trigger to make changes to the contributions.
The overriding point that the plans have no minimum required contribution rate, is what allows the pension plans access to the contribution holiday.

I am available if a call should be required.
Thanks,
Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Thursday, January 19, 2017 12:05 PM
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logo_d1ac01ba-f783-4248-82df-84549cb6f0b7_2.pdf


KOSKIE
MINSKY
JUSTICE MATTERS

28C - Email - January 29 2017 - RE_ [Not Virus Scanned] RE_ Report - Draft for final approval.pdf

From:	lucy.durocher@ca.pwc.com
To:	Patricia O"Malley
Cc:	Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject:	RE: [Not Virus Scanned] RE: Report - Draft for final approval
Date:	January-19-17 7:08:43 PM

My revised drafting accepts Uros' edits, except with a mention regarding employee contributions because we deal with both issues in the conclusion of measurement issue 3 and 4, and to leave in the reference to "beyond the next funding valuation" to be consistent with the discussion in the document.

For clarity the relevant paragraphs now read as follows:

(Panel View - Issues 3 and 4)

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

(Panel view - Measurement)

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

I will be circulating a revised version shortly taking into account all the typographical errors that have now been corrected (Thanks to all for those!) as well as the edits that have been discussed.

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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Uros Karadzic <uros.karadzic@ca.ey.com>, "Patricia O'Malley" <plomalley@outlook.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, Murray Gold <mgold@kmlaw.ca>
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
Date: 01/19/2017 02:28 PM
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

---

Fine with me. Lucy, is that going to work in the drafting?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: 19-Jan-17 14:13
To: Patricia O'Malley <plomalley@outlook.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Tricia,

Thanks for clarifying. I would agree with you and go one step further: I would say that we don't have any "required contributions regardless of any surplus" to the time of the next valuation either, because there is currently no surplus in either plan. So these are "minimum required contributions" but they are not "minimum required contributions regardless of any surplus" in my mind. This distinction is key when it comes to applying the asset ceiling calculation.

The language in the latest draft seemed to be making a distinction between the two. I suggest we drop any and all references to "minimum contributions" and solely use PSAS language of "minimum required regardless of any surplus" in all instances to avoid confusion or misinterpretation.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Thursday, January 19, 2017 1:45 PM
To: Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

Sorry, when I answered before I was assuming "regardless of any surplus" was implicit in both A and B. I for one do not want to go anywhere near something that would take us into IFRIC-14 territory. I still think that the

contributions to the next valuation have to be made “regardless of any surplus”, but after that there are no minimum contributions.

From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: 19-Jan-17 13:36
To: 'Uros Karadzic' <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I would agree that we should be sticking to PSAS language when possible.
Regards,
Paul

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: Thursday, January 19, 2017 2:01 PM
To: Martin, Paul (FIN); 'lucy.durocher@ca.pwc.com'; Patricia O'Malley; Murray Gold
Cc: Tam, Nelson (TBS)
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

My concern is that if we drop “regardless of any surplus” then we are essentially in the IFRIC 14 territory. And there we would typically look past the next valuation date to determine minimum funding requirements more holistically. This would make both (A) and (B) incorrect.

Rather than diving into analysis now on whether OTPP/OPSEUPP have facts and circumstances that would have them clear IFRIC14-type hurdles, I think we should just stick with PSAS language and keep referring to minimum funding requirements “regardless of any surplus”.

Again, happy to get on a call later today if necessary (5pm ET or later).

Uros

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From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: Thursday, January 19, 2017 12:37 PM
To: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I think both A and B are correct depending on the context of the discussion.
Stating “…after the next valuation filing date (date of renegotiation)” serves as the trigger to make changes to the contributions.
The overriding point that the plans have no minimum required contribution rate, is what allows the pension plans access to the contribution holiday.

I am available if a call should be required.

Thanks,

Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Thursday, January 19, 2017 12:05 PM
To: Uros Karadzic
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Patricia O'Malley
Subject: Re: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Uros.

We have been a bit back and forth on whether there is no "minimum contributions required regardless of any surplus" or whether there are no minimum requirements regardless of any surplus past the date of the next actuarial valuation.

One might view the agreements to be that the amounts of contributions have been agreed upon between the two parties and therefore are fixed (i.e. minimum contributions) until the next date when they can be renegotiated, which, for both OPSEUPP and OTPP I understand would be the filing of an actuarial valuation.

While actuarial valuations can be filed more regularly then once every three years, it would be by mutual agreement - they don't have to be. Therefore I had understood the view of the Panel as discussed at the last Panel meeting to be that there were no minimum contributions to be made regardless of any surplus after the next valuation date (i.e. maximum of three years minimum contributions).

There has been an amount of back and forth in the drafting over this point, so it may be that I have not understood the Panel's views.

Please can the Panel advise as to whether the view is:

A) No minimum contributions required.
B) No minimum contributions required after the next valuation filing date (date of renegotiation).

If we do not have consensus then I suggest we may need to set up a call to resolve this issue as while it does not change the end result (no valuation allowance required), it requires very different drafting and are fundamentally different interpretations of the standard requirements as they are applied to the Plan facts.

Lucy

Lucy Durocher
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From: Uros Karadzic <uros.karadzic@ca.ey.com>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Patricia O'Malley" <plomalley@outlook.com>

Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>

Date: 01/19/2017 10:34 AM

Subject: [Not Virus Scanned] RE: Report - Draft for final approval

---

Hi Lucy,

I've taken a look at this final draft, focusing on the new wording. I have two changes in the attached:

- Page 11: fixing a minor typo
- Page 30/31: the new wording seemed to be implying that there were no minimum required contributions beyond the next valuation. I think we should remove this and simply focus on there being no "minimum required contributions regardless of any surplus" at all. The broader statement is not accurate (it would contradict how the firms interpret IFRIC 14 in practice, which looks at the minimum funding requirements beyond the next valuation), but more importantly it is also not necessary for our conclusion. PSAS is only concerned with minimum funding requirements regardless of any surplus and that what we can safely say does not exist.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 8:19 AM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the

language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

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29 - Email - January 19 2017 - Perhaps the real final draft_.pdf

From: lucy.durocher@ca.pwc.com
To: Patricia O"Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Perhaps the real final draft?
Date: January-19-17 7:40:18 PM
Attachments: PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19.docx

---

Thank you for all comments received.

Please see attached for revised draft for final approval.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Uros Karadzic <uros.karadzic@ca.ey.com>, "Patricia O'Malley" <plomalley@outlook.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>, Lucy Durocher/CA/ABAS/PwC@Americas-CA, Murray Gold <mgold@kmlaw.ca>
Cc: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
Date: 01/19/2017 02:28 PM
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

---

Fine with me. Lucy, is that going to work in the drafting?

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: 19-Jan-17 14:13
To: Patricia O'Malley <plomalley@outlook.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Tricia,

Thanks for clarifying. I would agree with you and go one step further: I would say that we don't have any "required contributions regardless of any surplus" to the time of the next valuation either, because there is currently no surplus in either plan. So these are "minimum required contributions" but they are not "minimum required contributions regardless of any surplus" in my mind. This distinction is key when it comes to applying the asset ceiling calculation.

The language in the latest draft seemed to be making a distinction between the two. I suggest we drop any and all references to “minimum contributions” and solely use PSAS language of “minimum required regardless of any surplus” in all instances to avoid confusion or misinterpretation.

Uros

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Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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Sent: Thursday, January 19, 2017 1:45 PM
To: Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

Sorry, when I answered before I was assuming “regardless of any surplus” was implicit in both A and B. I for one do not want to go anywhere near something that would take us into IFRIC-14 territory. I still think that the contributions to the next valuation have to be made “regardless of any surplus”, but after that there are no minimum contributions.

From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: 19-Jan-17 13:36
To: 'Uros Karadzic' <uros.karadzic@ca.ey.com>; 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I would agree that we should be sticking to PSAS language when possible.
Regards,
Paul

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: Thursday, January 19, 2017 2:01 PM
To: Martin, Paul (FIN); 'lucy.durocher@ca.pwc.com'; Patricia O'Malley; Murray Gold
Cc: Tam, Nelson (TBS)
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

My concern is that if we drop “regardless of any surplus” then we are essentially in the IFRIC 14 territory. And there we would typically look past the next valuation date to determine minimum funding requirements more holistically. This would make both (A) and (B) incorrect.

Rather than diving into analysis now on whether OTPP/OPSEUPP have facts and circumstances that would have them clear IFRIC14-type hurdles, I think we should just stick with PSAS language and keep referring to minimum funding requirements “regardless of any surplus”.

Again, happy to get on a call later today if necessary (5pm ET or later).

Uros

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From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: Thursday, January 19, 2017 12:37 PM
To: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Uros Karadzic <uros.karadzic@ca.ey.com>; Patricia O'Malley <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: [Not Virus Scanned] RE: Report - Draft for final approval

I think both A and B are correct depending on the context of the discussion.
Stating "…after the next valuation filing date (date of renegotiation)" serves as the trigger to make changes to the contributions.
The overriding point that the plans have no minimum required contribution rate, is what allows the pension plans access to the contribution holiday.

I am available if a call should be required.
Thanks,
Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Thursday, January 19, 2017 12:05 PM
To: Uros Karadzic
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Patricia O'Malley
Subject: Re: [Not Virus Scanned] RE: Report - Draft for final approval

Hi Uros.

We have been a bit back and forth on whether there is no "minimum contributions required regardless of any surplus" or whether there are no minimum requirements regardless of any surplus past the date of the next actuarial valuation.

One might view the agreements to be that the amounts of contributions have been agreed upon between the two parties and therefore are fixed (i.e. minimum contributions) until the next date when they can be renegotiated, which, for both OPSEUPP and OTPP I understand would be the filing of an actuarial valuation.

While actuarial valuations can be filed more regularly then once every three years, it would be by mutual agreement - they don't have to be. Therefore I had understood the view of the Panel as discussed at the last Panel meeting to be that there were no minimum contributions to be made regardless of any surplus after the next valuation date (i.e. maximum of three years minimum contributions).

There has been an amount of back and forth in the drafting over this point, so it may be that I have not understood the Panel's views.

Please can the Panel advise as to whether the view is:

A) No minimum contributions required.
B) No minimum contributions required after the next valuation filing date (date of renegotiation).

If we do not have consensus then I suggest we may need to set up a call to resolve this issue as while it does not change the end result (no valuation allowance required), it requires very different drafting and are fundamentally different interpretations of the standard requirements as they are applied to the Plan facts.

Lucy

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From: Uros Karadzic <uros.karadzic@ca.ey.com>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Patricia O'Malley" <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Date: 01/19/2017 10:34 AM
Subject: [Not Virus Scanned] RE: Report - Draft for final approval

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Hi Lucy,

I've taken a look at this final draft, focusing on the new wording. I have two changes in the attached:

- Page 11: fixing a minor typo
- Page 30/31: the new wording seemed to be implying that there were no minimum required contributions beyond the next valuation. I think we should remove this and simply focus on there being no "minimum required contributions regardless of any surplus" at all. The broader statement is not accurate (it would contradict how the firms interpret IFRIC 14 in practice, which looks at the minimum funding requirements beyond the next valuation), but more importantly it is also not necessary for our conclusion. PSAS is only concerned with minimum funding requirements regardless of any surplus and that what we can safely say does not exist.

Uros

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From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Wednesday, January 18, 2017 8:19 AM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Report - Draft for final approval

Dear all,

Please see attached the draft report for you to give final approval for.

Please note - there is one footnote (footnote 2, appendix B) that is still outstanding pending advice on how to reference CPA Canada's copyright to this material - we have established that we can use it in the report as long as it is appropriately referenced. Nelson - could you ask Communications if they have any suggestions?

However this won't change the wording of the final report, so, if approved by the panel, it can be sent to translation.

For additional reference, here is a tracked changes version to January 13. Note that I did align the language to use "net pension asset" consistently, except when the specificity of the discussion required "accrued benefit asset" in the context of referencing the standard. These changes are not marked as there were many of them and they are not substantive to the text.

Regards,
Lucy

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

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PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

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The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS

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3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

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standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, Assets, repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit

CONFIDENTIAL

pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

For accounting purposes, the net pension asset is determined based on the full plan using “best estimate” assumptions. While the RSFs are based on funding surplus, each Sponsors’ share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor’s RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A’s share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government’s portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government’s share and what is the employee sponsor share, but the economic resource must be

CONFIDENTIAL DRAFT

equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

CONFIDENTIAL DRAFT

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements.

CONFIDENTIAL DRAFT

Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized

CONFIDENTIAL DRAFT

under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

CONFIDENTIAL DRAFT

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable – that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also

CONFIDENTIAL DRAFT

be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

If the standards required a net pension asset to be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would raise a recognition issue as there would be no ability to benefit from the expected future benefits of surplus withdrawal without a legally enforceable right. However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset can be measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals

CONFIDENTIAL DRAFT

or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

CONFIDENTIAL DRAFT

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

CONFIDENTIAL DRAFT

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes

CONFIDENTIAL DRAFT

to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

CONFIDENTIAL DRAFT

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.

CONFIDENTIAL DRAFT

- How “minimum contributions” and “regardless of any surplus” should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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29 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for benefits or contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of

CONFIDENTIAL DRAFT

deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS

CONFIDENTIAL DRAFT

3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, a primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210, Assets, repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires net pension asset to be recognized for a defined benefit

CONFIDENTIAL

pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they need to be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what the government's portion of that net pension asset or net pension liability is.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case.

CONFIDENTIAL DRAFT

For accounting purposes, the net pension asset is determined based on the full plan using “best estimate” assumptions. While the RSFs are based on funding surplus, each Sponsors’ share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor’s RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A’s share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government’s portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement Issues*), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government’s share and what is the employee sponsor share, but the economic resource must be

CONFIDENTIAL DRAFT

equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY “Accrued benefit asset”, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor’s right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

CONFIDENTIAL DRAFT

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements.

CONFIDENTIAL DRAFT

Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset” [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

CONFIDENTIAL DRAFT

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized

CONFIDENTIAL DRAFT

under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

CONFIDENTIAL DRAFT

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that Ontario taxpayers are funding the employer contributions and have an expectation that if there is any surplus in the plan generated from those contributions, that future contributions could be reduced, freeing up revenue to be used to meet other government programs. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms for how these future contribution reductions can be achieved.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable – that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1* the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also

CONFIDENTIAL DRAFT

be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. In other words, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not have the current ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires that a government have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may recognize an expected future benefit from the withdrawal of surplus.

If the standards required a net pension asset to be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would raise a recognition issue as there would be no ability to benefit from the expected future benefits of surplus withdrawal without a legally enforceable right. However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset can be measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to a 'legally enforceable rights' and 'regulatory approvals' are not generally significant to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays and requires nothing in the way of regulatory approvals

CONFIDENTIAL DRAFT

or consent in order for a government to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken. In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

CONFIDENTIAL DRAFT

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Certain other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

CONFIDENTIAL DRAFT

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes

CONFIDENTIAL DRAFT

to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions - and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when it must be renegotiated.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

CONFIDENTIAL DRAFT

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

CONFIDENTIAL DRAFT

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist preparers and auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of an asset and the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.

CONFIDENTIAL DRAFT

- How “minimum contributions” and “regardless of any surplus” should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

3 - Email - January 5 2017 - RE_ draft report.pdf

From:	Patricia O"Malley
To:	Tam, Nelson (TBS); Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Cc:	lucy.durocher@ca.pwc.com
Subject:	RE: draft report
Date:	January-05-17 10:12:14 AM

Thanks Nelson, that's great. I expect that having the translation of the technical terms will help them a lot with the body of the report as well. All of the PSAB material should be available because it doesn't go into the B until it is translated. IPSAS 39 may not be available anywhere in French though.

From: Tam, Nelson (TBS) [mailto:Nelson.Tam@ontario.ca]
Sent: 5-Jan-17 09:48
To: Patricia O'Malley <plomalley@outlook.com>; Murray Gold (mgold@kmlaw.ca) <mgold@kmlaw.ca>; Uros Karadzic (uros.karadzic@ca.ey.com) <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) (Paul.Martin@gnb.ca) <Paul.Martin@gnb.ca>
Cc: lucy.durocher@ca.pwc.com
Subject: RE: draft report

Patricia, Murray, Uros, Paul, Lucy

I started compiling Appendix B in French by accessing the French version of the Handbook. I should have this completed by today or tomorrow and can provide to Communications once the report is finalized. There may be a couple of items that may need translation.

Thanks

Nelson
416-212-0514

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: January-05-17 9:44 AM
To: Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Cc: Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject: draft report

Good morning

I have taken my first crack at the draft report. I thought it might help your review if you could see what I am suggesting. Also I have some questions/comments for you to consider.

Don't be alarmed by the amount of mark-up! It is almost all purely editorial. Bearing in mind the advice from the communications people, I have been splitting up long sentences, using bullets where possible and trying to convert to the active voice. Probably more needs to be done, but I don't think we will ever get the report itself to a Grade 7 level! I'm going to save that effort for the

executive summary. One thing we need to consider is whether we need all the technical reference material in Appendix B. It should not slow down the translation because almost all of it is available in French already. It's just a question of volume.

I had a conversation with Cindy and Nelson on Tuesday to report on our conclusions, as we promised at the last meeting. I will be going with them to brief the DM on Monday afternoon so will provide an update when I see you on Wednesday.

Cheers!
Tricia

3 - PENSION ASSET EXPERT ADVISORY PANEL Draft report 12 31 to’m.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

CONFIDENTIAL DRAFT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel ~~looked at~~reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). ~~and~~ It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that ~~shape~~ affect how accounting guidance is applied. A detailed understanding of plan-~~-~~specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements ~~are~~ were used ~~for assessing~~to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") ~~in Ontario~~), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans., ~~as t~~ The Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also ~~several~~ similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key feature ~~characteristic~~ of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor ~~defined benefit plans~~ and joint sponsor defined benefit plans is that the ~~ability~~ unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work

CONFIDENTIAL DRAFT

together ~~instead of one sponsor~~. The sharing of the risks and benefits of the pension plan on an equitable basis is ~~commensurate with~~a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to ~~be~~ a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of ~~motivation for making~~ these changes was ~~for~~ that the Ontario Provincial Government ~~to~~ transferred a share of the risks and costs of the obligation to the members of the ~~p~~Plans. In exchange ~~for taking on a share of the risk and cost of the obligation~~, the members received an equitable share of any surplus in their ~~p~~Plan (both the upside and downside of plan performance are equitably shared). ~~and~~ In addition, the member Sponsors received the right to participate in shared control of their ~~p~~Plan., ~~meaning that t~~ The arrangements contemplate~~s~~ ongoing discussions between the ~~sponsoring parties~~Sponsors of each Plan and joint decision-making about issues ~~decisions~~ such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from ~~a~~ single sponsored plans to a jointly sponsored plans was considered ~~by all parties~~ to be a fair and equitable arrangement by all parties ~~for both sides~~.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

CONFIDENTIAL DRAFT

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives ~~are~~ is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50/~~:~~50 basis between employers and members (except whenre ~~re~~ specifically agreed otherwise).

A current limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits ~~are not paid by the OTPP~~ in a year, the amount of ~~this~~ that benefit reduction is matched by a ~~corresponding~~ contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be ~~prepared~~ filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" ~~which means~~ that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, ~~including~~ plus the present value of the members' and employers' future contributions ~~plus~~ and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced ~~as defined above~~, the joint sponsors must negotiate and agree on what changes to the plan ~~must~~ will be made in order to reach an actuarially balanced valuation ~~that will subsequently~~to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors ~~could~~ can agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary ~~a board of~~of the question goes to binding arbitration. However, under the Partners' Agreement, ~~agreement~~ a decision

CONFIDENTIAL DRAFT

must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in ~~an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions~~reporting a surplus or deficit.

The joint sponsors have ~~agreed to~~implemented a Funding Management Policy (FMP) ~~to supplement~~ as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~that once the OTPP meets certain funding thresholds,~~ the Partners ~~must~~ to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when ~~changing~~ benefits or contributions will be ~~taken~~ changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners ~~and must be on an equitable basis (consistent with the definition of a JDBP)~~.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees ~~are~~ is appointed by each of the Ontario Provincial Government and OPSEU.

CONFIDENTIAL DRAFT

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee~~s~~ representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, ~~as~~ agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

Commented [PO1]: ?Isn't this OPTrust?

The Board of Trustees has no power to amend the ~~p~~Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the ~~p~~Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the ~~s~~Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the ~~s~~Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, ~~those net actuarial gains are~~that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. ~~Through collective bargaining~~, ~~a~~An allocation of funding surpluses ~~on a basis that is~~ different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently no ~~different basis of allocating~~ funding surpluses ~~has been agreed~~are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal ~~costs~~ contributions. Similarly, ~~and~~ OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion.~~,~~ Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's ~~s~~Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of

CONFIDENTIAL DRAFT

OPTrust Funding Policy]. ~~There are no restrictions on how e~~Each party's ~~bargains the~~ use of ~~their~~ its surplus is unrestricted. ~~There is n~~No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective ~~surplus portions~~RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce ~~their~~ its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are ~~not treated as~~explicitly not considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The relevant accounting framework as the basis for analysis is ~~performed in accordance with~~ Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government ~~must~~ follows any specific standard that relates to the issue under consideration, that is, ~~to apply~~it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further,

CONFIDENTIAL DRAFT

PS -3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS -1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. ~~and as such~~Consequently, they are currently valid sources of reference as they ~~were developed to be~~are consistent with PS 1000 and are intended to assist governments to apply the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS- 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* ~~and are consistent with PS 1000 concepts. They~~ and are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000, ~~and~~ the objectives of financial statements in PS 1150, ~~as well as~~and relevant guidance issued by other standard setters. ~~and~~ The Panel was particularly ~~were~~ guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on

CONFIDENTIAL DRAFT

them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, ~~it~~ the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality ~~at the time they are included in those statements~~.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the ~~entity~~ government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that ~~it~~ the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- What ~~place~~ does "conservatism" mean and how does it fit?

PS 1000 describes conservatism this way:

CONFIDENTIAL DRAFT

Conservatism
The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the ~~new~~ 2010 version of its Framework ~~in 2010~~, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases,

CONFIDENTIAL DRAFT

conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric~~al~~ recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics were referred to as "cookie jar reserves," allowing companies to manage their results to improve users' perception of their performance.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information ~~entails~~ demands that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

ESSENTIAL DRAFT

PS 3210, *Assets*, repeats this definition and expands on the guidance provided by PS 1000. ~~This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which~~ PS 3210 clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits*, issued in 201x, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to ~~assess~~ apply the conceptual definition of an asset, including control, economic benefit and risk concepts to ~~that of~~ a pension asset which typically exists in a separate vehicle~~, a trust,~~ from the sponsors. IPSAS 39.67 notes that:

- ~~-~~an asset exists when a plan has been overfunded or when~~re~~ actuarial gains have arisen (i.e. when there is a surplus for accounting purposes~~), and that~~
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund~~, either directly to the entity or indirectly to another plan in deficit~~. The asset ceiling is the present value of those future benefits.
- ~~-~~Control is ~~as~~ a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit accounting asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as ~~a~~ provisions for adverse deviations. However, under accounting standards, any surplus represents te difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus ~~calculated for~~determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains

Commented [PO2]: This doesn't really add anything to what is quoted just above as coming from 1000 except for the last para on the prev page which is the essential bit we need. Is that from 1000 too or only in 3210?

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CONFIDENTIAL DRAFT

and losses ~~due to the deferral provisions~~ and the measurement uncertainty ~~regarding~~ inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following ~~recognition~~ criteria for recognizing assets in the financial statements:

a) ~~That the item~~it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) ~~For an items that involved obtaining or giving up future economic benefits,~~ it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criterion~~a~~ requires ~~that~~ future economic benefits ~~are~~ to be *expected* ~~but do~~ not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 ~~provides an~~ specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also ~~requires~~ assists a net pension asset to meet the general recognition criterion~~a~~, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Commented [PO4]: This isn't really a view. It is the introduction to the analysis section where we take the facts and apply the relevant literature. Tis title should be bigger than the following subheadings.

Recognition issues

CONFIDENTIAL DRAFT

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 ~~Paragraph .~~ 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS- 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is an ~~critical~~ important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then ~~applying~~ determining whether any ~~the~~ valuation allowance ~~to~~ is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyse~~i~~s.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. ~~As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different sponsors.~~ A determination of the assets and the obligations of a defined benefit plan can ~~only~~ be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Limit guidance”) to the

CONFIDENTIAL DRAFT

government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that ~~generally~~ defined benefit plan accounting in financial statements ~~is based on a *net* amount of plan assets less accrued benefit obligations.~~reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. ~~Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity.~~ This accounting is ~~more~~ similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan ~~than to a proportionate consolidation accounting~~. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

Commented [PO5]: Personally, I have no idea what PSAB intended because they weren't explicit.

Commented [PO6]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

CONFIDENTIAL

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then ~~utilize~~ use its allocated portion as it unilaterally determines. This means that members and employers ~~could utilize~~can use their gains at different times, as historically has been the case. The result~~ing in~~ is that the portion of the plan net asset that relates to the government's share fluctuat~~es~~~~ing~~ as a percentage of the total net asset balance. ~~As a result~~Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any ~~one~~ time, when determining what ~~their~~ its share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource ~~of~~ that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource ~~to~~ of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

CONFIDENTIAL DRAFT

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, ~~(~~i.e., there is an accrued benefit asset~~,~~ (net of any valuation allowance – see Section [x – measurement]), ~~then~~ a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and ~~rewards~~ benefits is a basic tenet of JDBP accounting.

Ability to benefit

~~Notwithstanding that the above~~This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the ~~p~~Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet~~ing~~ this part of the asset definition ~~of an asset~~.

Consistent with PS 3250.052, ~~there are two ways that~~ a sponsor can benefit from a pension surplus in two ways:~~—~~

- withdraw~~ingal of~~ the surplus, ~~which involves~~ taking cash out of the plan, resulting in a ~~(~~cash inflow for the sponsor~~)~~, or
- ~~contribution holidays, which involves~~ reducing future contributions that would otherwise be payable for future employee service (a contribution oliday), resulting in a ~~(~~reduction of cash outflows for the sponsor~~)~~.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to ~~either~~ withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text~~;~~. ~~c~~Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

CONFIDENTIAL DRAFT

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Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

~~Based on the above considerations~~Consequently, the Panel ~~determined~~ concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus or otherwise. ~~It is generally the case that t~~The plan actuary may take surplus into account in determining the required level of employer contributions.; ~~t~~The plan actuary is ~~only~~ prohibited from doing so only when~~re~~ express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively ~~funded~~ managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations." ~~and not~~They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. ~~to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans~~. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

Commented [PO7]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [PO8]: Uros – true?

CONFIDENTIAL DRAFT

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these ~~p~~Plans to the extent ~~there are~~they hold more assets tha~~t~~nt are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation ~~on their side~~ that they can access their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither ~~joint~~ sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the ~~principles of a JDBP and the~~ equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared ~~by both sponsors~~ for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that ~~in both plans~~ the sponsors fund ~~the~~ both ~~p~~Plans on an equitable basis and therefore both ~~joint~~ sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can ~~only~~ accrue only to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue ~~only~~ to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset?

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The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset ~~due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets,~~ there is no uncertainty as to whether the plan exists, and therefore ~~over~~ about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events

CONFIDENTIAL DRAFT

occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. ~~There are n~~No future events are needed to clarify whether the service was provided by the employees ~~or not~~ or whether the plan assets were contributed ~~or not~~.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The ~~accounting asset~~ accrued benefit asset meets the definition of an economic resource because ~~the accrued benefit asset~~ it exists and future benefit is available to the sponsors in accordance with the ~~p~~Plan documents. There is no ~~existence~~ uncertainty regarding the existence or potential benefit of the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource ~~must be controlled by a government~~ for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. ~~which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan.~~ The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. ~~and a~~Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect ~~of this~~ is that each sponsor individually has a veto right for fundamental changes to the Plan or ~~shared~~ decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210. ~~This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.~~

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process.

CONFIDENTIAL DRAFT

That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus~~, as equitable sharing is a key characteristic of a JDBP~~. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. ~~The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors.~~ Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, ~~the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather,~~ the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. ~~This means that c~~Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element~~s~~ of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the ~~capital~~ assets held under joint control~~, for example,~~ even though the government cannot control the use of ~~that~~ those assets unilaterally.

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that ~~no investments in~~ governments could not recognize their proportionate interests in partnerships ~~could be recognized~~. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of ~~a~~ the portion of a~~n~~ jointly controlled asset ~~that is under shared control~~. It seems logical that this concept should also apply to a pension asset of a JDBP. Like PS

CONFIDENTIAL DRAFT

3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the ~~members of~~sponsors sharing control group each ~~pick up~~recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize ~~their~~ its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. ~~and~~ This supports an expectation that ~~they~~ it would be able to do so in the future, given ~~their~~ its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism ~~also supports~~provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

CONFIDENTIAL DRAFT

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support~~s~~ a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [PO9]: Is this relevant here or can it be deleted? Seems repetitive and out of place.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both ~~p~~PPlans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

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For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for ~~their~~ its portion of a net asset which represents a ~~true~~ economic resource, would not faithfully represent the economic

CONFIDENTIAL DRAFT

substance of a JDBP whereby the risks and ~~rewards~~ benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

Commented [PO10]: Is it actually called this? I have never heard it – usually referred to as asset ceiling in my experience.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, ~~and~~ so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which ~~is recorded against~~reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] ~~Under~~ As previously discussed, the standard ~~there are~~identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions ~~using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday"~~.

As ~~T~~the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. ~~, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above.~~ PS 3250.059 ~~paragraph 59~~ requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last ~~sentence~~one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is ~~not the same as~~significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, ~~it would not be~~in the Panel's view it is not appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing ~~how to agree upon~~decisions about the allocation of surplus on an equitable basis. ~~In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration.~~ There is no need to change the existing rights within the contractual arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to ~~negotiate~~ obtain an expected future benefit. ~~In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools.~~ Consistent with ~~this~~ the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or when~~re~~ there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists ~~I~~in the OTPP ~~there is no such restriction~~. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text ~~agrees to~~specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under ~~this~~ the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS~~,~~ unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes~~,~~ that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires ~~that~~ minimum contributions that the government is required to make regardless of any surplus ~~are~~ to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to

CONFIDENTIAL - DRAFT

benefit from ~~obtain~~ a reduction in contributions to the plan~~ and therefore there would be no expected future benefit that could be obtained through a contribution holiday~~.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to ~~take~~ reduce contribution~~s reductions~~.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus~~, and not accounting surplus, and that i~~If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners' Agreement requires ~~that~~ any valuation filed for regulatory purposes ~~must~~ to be ~~an~~ "actuarially balanced"~~ valuation~~, ~~there is~~ no funding surplus ~~that arises~~will exist in tose valuations. ~~, as a~~Any ~~preliminary~~ funding surplus in a preliminary valuation must be dealt with through the negotiation process before the final valuation is filed. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, ~~there is also~~ no ~~ultimate~~ funding surplus ~~that~~ is anticipated by the OTPP. ~~They~~ The sponsors can agree to any level of contributions as long as the result is actuarially balanced ~~and~~ so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Commented [PO11]: Not sure what this adds?

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

~~There is also a question as to whether~~It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared

CONFIDENTIAL DRAFT

control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Commented [PO12]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what ~~were~~ the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective~~-~~. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions? is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government Public Accounts ~~would recognize~~should

Commented [PO13]: Do we have doubts about the Deloitte calculation? I thought Uros was satisfied?

Commented [PO14]: Or are we assuming there is not requirement for employee contributions? If so, we need to change the previous two paragraphs to remove both of the deductions. Or leave the exact PS requirement and explain why neither deduction needs to be made.

CONFIDENTIAL DRAFT

reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset ~~in the Public Accounts~~.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making ~~over~~ about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or ~~liability~~ obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

CONFIDENTIAL DRAFT

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized ~~on~~ in financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms ~~used~~ proposed to deal with potential income ~~statement~~ volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that ~~these~~ they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different ~~than~~ from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require ~~that~~ the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

CONFIDENTIAL DRAFT

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

30 - Email - January 18 2017 - RE_ executive summary round 2.pdf

From: Uros Karadzic
To: Patricia O"Malley; Murray Gold; Martin, Paul (FIN)
Cc: Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject: RE: executive summary round 2
Date: January-18-17 3:08:49 PM
Attachments: Executive Summary v2 - UK edits.docx

Hi Tricia,

I've accepted all your changes, and added just a couple minor tweaks in the attached.

If we end up publishing the Background material, perhaps we should just take another quick read through it; but I did not focus on in this review.

If there is a media event, we will support you!

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Tuesday, January 17, 2017 4:24 PM
To: Murray Gold <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; lucy.durocher@ca.pwc.com
Subject: executive summary round 2

Good day

Thanks for the comments to Lucy. We should be in good shape for finalizing no later than the end of the week.

I got the communications feedback on the exec summary draft, and they wanted it shorter with more emphasis on the conclusions (thanks Uros!). However, we will likely make use of the background material as part of the package for the media event, so I have left it at the end of the file just so we can find it. Not certain yet if they will decide to have a media event, but if they do I am not going alone!

I am attaching the second draft for your comments. I did it in track changes but given the amount of material that was moved around, I would strongly advise turning off the markup to review it.

Thanks

Tricia

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

Executive Summary v2 - UK edits.pdf

Executive Summary

Introduction

The Panel was appointed to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

~~In order to provide its advice, T~~the Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan and Ontario Public Sector Employees' Union Pension Plan. This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we 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 related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

Both OTPP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor – in this case, the Ontario Teachers Federation or OPSEU – and an Employer Sponsor – the government. In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including ~~valuations,~~ how shortfalls are to be made up and how the benefits of excess assets are to be shared.

Commented [UK1]: Not really sure what agreeing on a valuation means, or how accurate it is, but I think the shortfall/surplus decisions are the most important to be included here anyway.

The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the excess assets in the plans can be used to reduce the contributions the government is required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.

- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and . Eeach sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

Commented [UK2]: Just to clarify that the last sentence only related to OPSEUPP

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal.

The Panel concluded that these conditions are not relevant to reducing contributions because:

- the legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plans sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel thinks that the accounting answer needs to reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be reduced for the government to record an asset. The public sector accounting standards

are clear that the benefits from the surplus need only be expected. In this case, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them ~~them~~ in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public section pension accounting standard each year.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors represent themselves, and their own interests, in sponsor-level decision-making about the terms of the plan. Sponsors typically appoint fiduciaries to an investment/administrative board to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. Sponsors on one hand and fiduciaries on administrative/investment boards on the other have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of actuarial valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the

Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. Those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

30 - Executive Summary v2 - UK edits.docx

Executive Summary

Introduction

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Commented [UK1]: Not really sure what agreeing on a valuation means, or how accurate it is, but I think the shortfall/surplus decisions are the most important to be included here anyway.

The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

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- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

Commented [UK2]: Just to clarify that the last sentence only related to OPSEUPP

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal.

The Panel concluded that these conditions are not relevant to reducing contributions because:

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Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. It provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. Following that guidance shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

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Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public section pension accounting standard each year.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

Sponsors represent themselves, and their own interests, in sponsor-level decision-making about the terms of the plan. Sponsors typically appoint fiduciaries to an investment/administrative board to oversee the management the plan itself. This involves activities such as collecting contributions, investing the plan assets and paying the pensions. Sponsors on one hand and fiduciaries on administrative/investment boards on the other have different responsibilities. People who make decisions about plan terms represent the sponsor that appointed them. People who oversee the plan (trustees, in many cases) are required to act in the interests of all members of the plan.

Why are pension plans valued in different ways?

Pension plan valuations are prepared by actuaries. More than one type of actuarial valuation of a pension plan is required. Pension plans are regulated by the Financial Services Commission of Ontario (FSCO) which ensures that they comply with the

Ontario Pension Benefits Act (PBA). Plans have to file "funding" valuations with FSCO. These valuations are used to determine the level of contributions needed from employees and employers. Plans also need to prepare accounting valuations so employer sponsors can reflect the appropriate amounts for the plan in their financial statements.

Why is there more than one valuation? Because the valuations have different objectives. FSCO is concerned about the security of the promised pension benefits, as are plan members. Both employees and employers are also concerned about the affordability of the plan and keeping both benefit and contribution levels stable. It is hard for both parties to budget if they can't predict what part of their income will have to be contributed to the pension plan. As a result of these objectives, well-managed plans build reserves to ensure the security of promised pension benefits and to act as "shock absorbers" for unexpected actual experience that differs from the assumptions used in the valuation.

Accounting valuations are prepared at the year end to reflect the Sponsor's best estimate of:

- the surplus or deficit in the plan at the end of the year, and
- the cost of pension benefits for the services employees provided during the year.

The Sponsor's assumptions about all of the factors that affect the value of the plan are intended to reflect what it thinks the most likely outcome will be. Those assumptions have to be consistent with current experience and each other. But they don't have to be the same as the ones used in the funding valuation because they are not designed to measure and provide for the various risks in the plan. As a result, it is not surprising that plans show considerable surpluses when viewed from an accounting "best estimate" perspective. The additional contributions made to the plans to protect benefits and provide stability show up as accounting surpluses. Simply speaking, from an accounting best-estimate perspective, these plans have somewhat more assets than would currently be anticipated as needed to pay out all benefits.

31 - Email - January 19 2017 - RE_ executive summary round 2.pdf

From:	Martin, Paul (FIN)
To:	"Patricia O"Malley"
Cc:	Tam, Nelson (TBS); lucy.durocher@ca.pwc.com; Murray Gold; Uros Karadzic
Subject:	RE: executive summary round 2
Date:	January-19-17 7:01:53 AM
Attachments:	Executive Summary v2 with PM edits.docx

My edits attached.
Best regards,
Paul

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Tuesday, January 17, 2017 5:24 PM
To: Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc: Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject: executive summary round 2

Good day

Thanks for the comments to Lucy. We should be in good shape for finalizing no later than the end of the week.

I got the communications feedback on the exec summary draft, and they wanted it shorter with more emphasis on the conclusions (thanks Uros!). However, we will likely make use of the background material as part of the package for the media event, so I have left it at the end of the file just so we can find it. Not certain yet if they will decide to have a media event, but if they do I am not going alone!

I am attaching the second draft for your comments. I did it in track changes but given the amount of material that was moved around, I would strongly advise turning off the markup to review it.

Thanks
Tricia

Executive Summary v2 with PM edits.pdf

Executive Summary

Introduction

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31 - Executive Summary v2 with PM edits.docx

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32 - Email - January 19 2017 - exec summary.pdf

From:	Patricia O"Malley
To:	Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc:	"lucy.durocher@ca.pwc.com"; Tam, Nelson (TBS)
Subject:	exec summary
Date:	January-19-17 6:44:36 PM
Attachments:	Executive Summary v3.docx

Have not yet heard from “communications” on the new version, but it looks like we are all on side.
This file incorporates edits received.
Please let me know if this is good to go.
Thx
T

Executive Summary v3.pdf

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Introduction

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32 - Executive Summary v3.docx

Executive Summary

Introduction

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~~In order to provide its advice, t~~The Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP). This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit)

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The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

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The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the ~~excess assets~~surpluses in the plans can be used ~~to~~ by reduc~~inge~~ the contributions the

government is required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.

- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50~~,~~ ~~E~~ and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal.

The Panel concluded that these conditions are not relevant to assessing the ability of a sponsor toreduce~~ing~~ contributions because:

- the legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plan~~s~~ sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel ~~thinks~~ concluded that the accounting answer ~~needs to~~should reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In ~~this~~ these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. ~~It~~ The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following ~~that~~ the guidance in the standard ~~guidance~~ shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them ~~them~~ in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public ~~section~~ sector pension accounting standard each year.

Background

What are pension plans?

Pension plans are complicated arrangements intended to provide income to former employees during their retirement. Each plan is unique, so understanding its specific terms is essential. However, some common features are:

- Very long term – often 50 years or more from beginning employment to the end of the pension for individual employees and the plans themselves exist indefinitely unless terminated.
- Promising to provide pensions of specific amounts is risky because it depends on factors such as how long employees will work, how much their salaries will be, how long they will live after they retire, and how much investment income the plan will generate from the contributions made by employees and employers.
- Trying to determine how much those contributions should be, and to determine the value of pension assets and obligations to record in the financial statements means making assumptions about all those risk factors, and more.

How does a jointly sponsored plan differ from one with only a single employer sponsor?

In jointly sponsored pension plans, the risks are shared between an Employee Sponsor and an Employer Sponsor, in accordance with the terms of the plan agreement. The Sponsors must agree on all decisions about the important features of the plan, including valuations, how shortfalls are to be made up and how the benefits of excess assets are to be shared. Employees and employers agree to share risks because it is good for both parties. By agreeing to share some of the risks, employees get to share in the decision-making about the plan benefits and to share the benefit of surplus assets if there are any. Employers give up their rights to make decisions on their own and to a part of the benefits of plan surpluses in return for the employees' assumption of some of the risks.

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33 - Email - January 20 2017 - RE_ exec summary.pdf

From:	Uros Karadzic
To:	Martin, Paul (FIN); "Patricia O"Malley"; Murray Gold
Cc:	"lucy.durocher@ca.pwc.com"; Tam, Nelson (TBS)
Subject:	RE: exec summary
Date:	January-20-17 11:06:37 AM

I have no further comments. Thank you again for pulling this together!

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP
Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com
Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

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From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: Friday, January 20, 2017 10:30 AM
To: 'Patricia O'Malley' <plomalley@outlook.com>; Murray Gold <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: RE: exec summary

Hi Trish,
I noted three minor edits as attached for your consideration.
Looks great.
Paul

From: Patricia O'Malley [mailto:plomalley@outlook.com]
Sent: Thursday, January 19, 2017 7:44 PM
To: Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc: 'lucy.durocher@ca.pwc.com'; Tam, Nelson (TBS)
Subject: exec summary

Have not yet heard from “communications” on the new version, but it looks like we are all on side.
This file incorporates edits received.
Please let me know if this is good to go.
Thx
T

CONFIDENTIAL and/or PRIVILEGED. If received in error please notify the sender and permanently delete. CONFIDENTIEL et/ou PRIVILÉGIÉ. Si ce courriel est reçu par erreur, veuillez nous en aviser et en effacer toute trace. EY, 222 Bay St, PO Box 251, Toronto, ON M5K 1J7. www.ey.com/ca To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

33 - Executive Summary v3 with PM edits Jan 20 2017.docx

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Commented [PM1]: Missing a period at end of sentence.

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Commented [PM2]: Missing a space between these two words.

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Panel advice

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Commented [PM3]: Added the word "of".

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34 - Email - January 20 2017 - executive summary.pdf

From:	Patricia O"Malley
To:	Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc:	Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject:	executive summary
Date:	January-20-17 12:00:08 PM
Attachments:	Executive Summary final.docx

Thanks for the comments. I have removed the background – to be saved for the media pack for the technical briefing.

As far as I am concerned, it is final. However, I think we should wait until we have the complete report ready to go as well, before we send it to the communications people.

Tricia

Executive Summary final.pdf

Executive Summary

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- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be

reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following the guidance in the standard shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public sector pension accounting standard each year.

34 - Executive Summary final.docx

Executive Summary

Introduction

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

The Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP). This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit).

The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we 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 related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

Both OTPP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor – in these cases, the Ontario Teachers Federation or OPSEU – and an Employer Sponsor – the government. In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including valuation assumptions, how shortfalls (deficits) are to be made up and how the benefits of overfunding (surpluses) are to be shared.

The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the surpluses in the plans can be used by reducing the contributions the government is

required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.

- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal. The Panel concluded that these conditions are not relevant to assessing the ability of a sponsor to reduce contributions because:

- The legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plan sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel concluded that the accounting answer should reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be

reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following the guidance in the standard shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public sector pension accounting standard each year.

35 - Email - January 20 2017 - RE_ Done!.pdf

From:	Patricia O"Malley
To:	Murray Gold; Uros Karadzic; Martin, Paul (FIN)
Cc:	lucy.durocher@ca.pwc.com; Tam, Nelson (TBS)
Subject:	RE: Done!
Date:	January-20-17 4:38:56 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19 to"m.docx

Sorry. As Lucy has pointed out, I attached the wrong file in my eagerness to get it out.
Have a good weekend!

From: Patricia O'Malley
Sent: 20-Jan-17 12:36
To: 'Murray Gold' <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: Done!

I am attaching my final(!) edits on the report. The only bit that is not purely wordsmithing or punctuation is in the part that was subject to yesterday's redraft in the first measurement issue.

It occurred to me that the requirement for unilateral legal rights makes what is actually a valuation question look like recognition, because the absence of those rights requires a full valuation allowance – the asset does not appear. Have done a little revising to add that thought.

If no-one thinks it adds anything, I am happy to go with what is in the draft.

I think the aim should be to deliver it first thing Monday morning. Have a good weekend.
Tricia

PENSION ASSET EXPERT ADVISORY PANEL Draft for_3.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement ~~by all parties~~.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to ~~the~~ negotiation~~s~~ by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each ~~party's~~ Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits*

CONFIDENTIAL DRAFT

(PS -3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 ~~above~~. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, ~~a~~the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210~~, Assets,~~ repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined

CONFIDENTIAL

benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding ~~the delayed recognition of actuarial gains and losses and~~ the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

Commented [PO1]: I don't think we need to complicate tis by talking about the deferral provisions. They don't affect the conclusion.

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they ~~need to~~must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit ~~a~~Accounting to Joint Defined Benefit Plans

Commented [PO2]: We need to be consistent in the use of upper and lower case in the section headings. Tis is upper, the next is lower?

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A~~)~~ – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B~~)~~ – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining ~~what~~ the government's portion of that net pension asset or net pension liability ~~is~~.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which would reflect~~s~~ the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, -to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP.~~, and~~ Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to ~~fund the provision of~~provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus.~~, and i~~I It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case~~s~~ of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with an accounting surplus is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan ~~asset~~ surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

Commented [PO3]: Why do we need to say this again? It is in the accounting guidance section. If we leave it in, we have to add "early application permitted".

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access ~~to~~ by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, ~~then~~ it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would ~~in fact~~ preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, ~~and~~ the have a~~n~~ reasonable expectation that, if there is any surplus in the plan generated from those contributions, ~~that~~ future contributions could be reduced. ~~,~~ That reduction would free~~ing~~ up revenue to be used to meet other government ~~programs~~obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms ~~for how~~to achieve these future contribution reductions ~~can be achieved~~.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Commented [PO4]: I'm sorry to keep editing but I simply cannot let us issue something with sentences 5 lines long. When we are supposed to be writing to a Grade 7 level.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable – that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors' recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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

CONFIDENTIAL DRAFT

b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. ~~In other words,~~ that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not currently have the ~~current~~ ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires ~~that~~ a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may ~~recognize an~~ expect~~ed~~ a future benefit ~~from~~ based on the withdrawal of surplus.

If ~~the standards required~~ a net pension asset ~~to~~ could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would ~~raise~~ essentially amount to a recognition issue. ~~as~~ Without a legally enforceable right to withdraw surplus, there would be no ~~ability to benefit from the~~ expected future benefits – a full valuation allowance would be required ~~of surplus withdrawal without a legally enforceable right~~. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced

CONFIDENTIAL DRAFT

contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset ~~can be~~is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals~~ ~~apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to ~~a~~ 'legally enforceable rights' and 'regulatory approvals' are not ~~generally significant~~applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays. ~~and~~ It requires nothing in the way of regulatory approvals or consent in order for a ~~government~~ sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding? surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer ~~requiring~~ that it will

CONFIDENTIAL DRAFT

always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. ~~It~~ This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

~~Certain~~ Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

CONFIDENTIAL DRAFT

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of~~n~~ contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions ~~.~~ – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when ~~it~~ they must be ~~renegotiated~~specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are

CONFIDENTIAL DRAFT

required to be made “regardless of any surplus”, but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan “regardless of any surplus”. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions

CONFIDENTIAL DRAFT

(if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist ~~preparers~~ governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of ~~an~~ assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount

CONFIDENTIAL DRAFT

rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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35 - Executive Summary final.docx

Executive Summary

Introduction

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

The Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP). This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit).

The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, 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 we 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 related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

Both OTPP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor – in these cases, the Ontario Teachers Federation or OPSEU – and an Employer Sponsor – the government. In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including valuation assumptions, how shortfalls (deficits) are to be made up and how the benefits of overfunding (surpluses) are to be shared.

The Panel's analysis concludes that an asset exists for the government in both OTPP and OPSEUPP because:

- the accounting surplus in the plan has a future economic benefit – the surpluses in the plans can be used by reducing the contributions the government is

required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.

- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal. The Panel concluded that these conditions are not relevant to assessing the ability of a sponsor to reduce contributions because:

- The legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plan sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel concluded that the accounting answer should reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTPP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be

reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following the guidance in the standard shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTPP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public sector pension accounting standard each year.

35 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19 to’m.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement ~~by all parties~~.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to ~~the~~ negotiation~~s~~ by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each ~~party's~~ Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits*

CONFIDENTIAL DRAFT

(PS -3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 ~~above~~. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, ~~a~~the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210~~, Assets,~~ repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined

CONFIDENTIAL

benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding ~~the delayed recognition of actuarial gains and losses and~~ the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

Commented [PO1]: I don't think we need to complicate tis by talking about the deferral provisions. They don't affect the conclusion.

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they ~~need to~~must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of Defined Benefit ~~a~~Accounting to Joint Defined Benefit Plans

Commented [PO2]: We need to be consistent in the use of upper and lower case in the section headings. Tis is upper, the next is lower?

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A~~)~~ – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B~~)~~ – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan). A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining ~~what~~ the government's portion of that net pension asset or net pension liability ~~is~~.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which would reflect~~s~~ the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, -to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP.~~, and~~ Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to ~~fund the provision of~~provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus.~~, and i~~I It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case~~s~~ of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with an accounting surplus is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan ~~asset~~ surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* (effective April 1, 2017) could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

Commented [PO3]: Why do we need to say this again? It is in the accounting guidance section. If we leave it in, we have to add "early application permitted".

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access ~~to~~ by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, ~~then~~ it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would ~~in fact~~ preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, ~~and~~ the have a~~n~~ reasonable expectation that, if there is any surplus in the plan generated from those contributions, ~~that~~ future contributions could be reduced. ~~,~~ That reduction would free~~ing~~ up revenue to be used to meet other government ~~programs~~obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms ~~for how~~to achieve these future contribution reductions ~~can be achieved~~.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Commented [PO4]: I'm sorry to keep editing but I simply cannot let us issue something with sentences 5 lines long. When we are supposed to be writing to a Grade 7 level.

CONFIDENTIAL DRAFT

Measurement Issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable – that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 sets out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors' recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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

CONFIDENTIAL DRAFT

b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations [PS 3250.56].

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future. ~~In other words,~~ that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b) or through reduced contributions (addressed in PS 3250.056 (a).

As the Panel concluded that the Ontario Provincial Government does not currently have the ~~current~~ ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires ~~that~~ a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may ~~recognize an~~ expect~~ed~~ a future benefit ~~from~~ based on the withdrawal of surplus.

If ~~the standards required~~ a net pension asset ~~to~~ could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would ~~raise~~ essentially amount to a recognition issue. ~~as~~ Without a legally enforceable right to withdraw surplus, there would be no ~~ability to benefit from the~~ expected future benefits – a full valuation allowance would be required ~~of surplus withdrawal without a legally enforceable right~~. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced

CONFIDENTIAL DRAFT

contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset ~~can be~~is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals~~ ~~apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to ~~a~~ 'legally enforceable rights' and 'regulatory approvals' are not ~~generally significant~~applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is generally permissive in regards to contribution holidays. ~~and~~ It requires nothing in the way of regulatory approvals or consent in order for a ~~government~~ sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding? surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer ~~requiring~~ that it will

CONFIDENTIAL DRAFT

always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. ~~It~~ This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

~~Certain~~ Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

CONFIDENTIAL DRAFT

Panel View – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel View – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

CONFIDENTIAL DRAFT

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of~~n~~ contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes

CONFIDENTIAL DRAFT

in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions ~~.~~ – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when ~~it~~ they must be ~~renegotiated~~specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are

CONFIDENTIAL DRAFT

required to be made “regardless of any surplus”, but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan “regardless of any surplus”. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods beyond the next required funding valuation.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions

CONFIDENTIAL DRAFT

(if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist ~~preparers~~ governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of ~~an~~ assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount

CONFIDENTIAL DRAFT

rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial Statement Objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government Partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of Contingent Assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

36 - Email - January 20 2017 - Re_ [Not Virus Scanned] RE_ Done!.pdf

From: lucy.durocher@ca.pwc.com
To: Patricia O"Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Re: [Not Virus Scanned] RE: Done!
Date: January-20-17 5:54:38 PM
Attachments: PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 20.docx

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Please find attached final clean file.

Please note that after a conversation with Uros regarding his comments from yesterday, I have also taken out the "beyond the next filing valuation comment" as he suggested.

Any last comments to be provided prior to Monday a.m. at latest! If no further comments it would also be helpful if you could confirm approval of this draft.

Lucy

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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Murray Gold <mgold@kmlaw.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Cc: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
Date: 01/20/2017 04:40 PM
Subject: [Not Virus Scanned] RE: Done!

Sorry. As Lucy has pointed out, I attached the wrong file in my eagerness to get it out.
Have a good weekend!

From: Patricia O'Malley
Sent: 20-Jan-17 12:36
To: 'Murray Gold' <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: Done!

I am attaching my final(!) edits on the report. The only bit that is not purely wordsmithing or punctuation is in the part that was subject to yesterday's redraft in the first measurement issue.

It occurred to me that the requirement for unilateral legal rights makes what is actually a valuation question look like recognition, because the absence of those rights requires a full valuation allowance – the asset does not appear. Have done a little revising to add that thought.

If no-one thinks it adds anything, I am happy to go with what is in the draft.

I think the aim should be to deliver it first thing Monday morning. Have a good weekend.
Tricia[attachment "PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19 to'm.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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PENSION ASSET EXPERT ADVISORY PANEL Draft for_4.pdf

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to negotiation by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS?

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be

CONFIDENTIAL DRAFT

financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210 repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the measurement uncertainty inherent in both the

CONFIDENTIAL DR

measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of defined benefit accounting to joint defined benefit plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan.) A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Asset Ceiling Test”) to the government’s share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor’s portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government’s portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining the government’s portion of that net pension asset or net pension liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan’s accounting surplus or deficit. The plan’s assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an “equity method” of accounting which would reflect the sponsor’s interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner’s Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers’ Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP. Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus. It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with a net pension asset is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel view – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, they have a reasonable expectation that, if there is any surplus in the plan generated from those contributions, future contributions could be reduced. That reduction would free up revenue to be used to meet other government obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms to achieve these future contribution reductions.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

CONFIDENTIAL DRAFT

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 set out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors’ recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b)) or through reduced contributions (addressed in PS 3250.056 (a)).

As the Panel concluded that the Ontario Provincial Government does not currently have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may expect a future benefit based on the withdrawal of surplus.

If a net pension asset could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would essentially amount to a recognition issue. Without a legally enforceable right to withdraw surplus, there would be no expected future benefits – a full valuation allowance would be required. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to 'legally enforceable rights' and 'regulatory approvals' are not applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is

CONFIDENTIAL DRAFT

generally permissive in regards to contribution holidays. It requires nothing in the way of regulatory approvals or consent in order for a sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel view – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel view – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

CONFIDENTIAL DRAFT

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan certainly affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when they must be specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

CONFIDENTIAL DRAFT

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

CONFIDENTIAL DRAFT

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods..

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB’s initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial statement objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of contingent assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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36 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 20.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to negotiation by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS?

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be

CONFIDENTIAL DRAFT

financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210 repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the measurement uncertainty inherent in both the

CONFIDENTIAL DR

measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of defined benefit accounting to joint defined benefit plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan.) A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Asset Ceiling Test”) to the government’s share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor’s portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government’s portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining the government’s portion of that net pension asset or net pension liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan’s accounting surplus or deficit. The plan’s assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an “equity method” of accounting which would reflect the sponsor’s interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner’s Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers’ Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP. Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus. It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with a net pension asset is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel view – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, they have a reasonable expectation that, if there is any surplus in the plan generated from those contributions, future contributions could be reduced. That reduction would free up revenue to be used to meet other government obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms to achieve these future contribution reductions.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

CONFIDENTIAL DRAFT

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 set out how this test is performed when there is a net pension asset. This is known as the “Limit on the Carrying Amount of an Accrued Benefit Asset” (the “Asset Ceiling Test” or “Valuation allowance”). Consistent with the Panel’s views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government’s recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors’ recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as “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)” [PS 3250.GLOSSARY “Accrued benefit asset”].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains” [PS 3250.GLOSSARY “Adjusted benefit asset”]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b)) or through reduced contributions (addressed in PS 3250.056 (a)).

As the Panel concluded that the Ontario Provincial Government does not currently have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may expect a future benefit based on the withdrawal of surplus.

If a net pension asset could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would essentially amount to a recognition issue. Without a legally enforceable right to withdraw surplus, there would be no expected future benefits – a full valuation allowance would be required. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to 'legally enforceable rights' and 'regulatory approvals' are not applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is

CONFIDENTIAL DRAFT

generally permissive in regards to contribution holidays. It requires nothing in the way of regulatory approvals or consent in order for a sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel view – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel view – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

CONFIDENTIAL DRAFT

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan certainly affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when they must be specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

CONFIDENTIAL DRAFT

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

CONFIDENTIAL DRAFT

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods..

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB’s initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

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[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial statement objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

PS 3060.11-22 – Elements that define a government partnership

CONFIDENTIAL DRAFT

Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

CONFIDENTIAL DRAFT

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of contingent assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

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PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

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.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 expensxes 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.

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PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

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Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

36A - Email - January 20 2017 - RE_ [Not Virus Scanned] RE_ Done!.pdf

From: Uros Karadzic
To: lucy.durocher@ca.pwc.com; Patricia O"Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN)
Subject: RE: [Not Virus Scanned] RE: Done!
Date: January-20-17 8:34:11 PM

No further comments, Lucy! Thank you for this great effort!

From: lucy.durocher@ca.pwc.com
Sent: Friday, January 20, 2017 11:54:07 PM
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Re: [Not Virus Scanned] RE: Done!

Please find attached final clean file.

Please note that after a conversation with Uros regarding his comments from yesterday, I have also taken out the "beyond the next filing valuation comment" as he suggested.

Any last comments to be provided prior to Monday a.m. at latest! If no further comments it would also be helpful if you could confirm approval of this draft.

Lucy

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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Murray Gold <mgold@kmlaw.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Cc: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
Date: 01/20/2017 04:40 PM
Subject: [Not Virus Scanned] RE: Done!

Sorry. As Lucy has pointed out, I attached the wrong file in my eagerness to get it out.

Have a good weekend!

From: Patricia O'Malley
Sent: 20-Jan-17 12:36
To: 'Murray Gold' <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: Done!

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If no-one thinks it adds anything, I am happy to go with what is in the draft.

I think the aim should be to deliver it first thing Monday morning. Have a good weekend.
Tricia[attachment "PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19 to'm.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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From:	Murray Gold
To:	lucy.durocher@ca.pwc.com; Patricia O"Malley
Cc:	Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject:	RE: [Not Virus Scanned] RE: Done!
Date:	January-22-17 10:30:30 AM
Attachments:	logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

Thanks Lucy. This looks great – I have no comments.

KOSKIE MINSKY
JUSTICE MATTERS

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From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: January-20-17 5:54 PM
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Re: [Not Virus Scanned] RE: Done!

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To: Murray Gold <mgold@kmlaw.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Cc: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
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Cc: Murray Gold; Tam, Nelson (TBS); Uros Karadzic
Subject: RE: [Not Virus Scanned] RE: Done!
Date: January-23-17 6:48:44 AM

No further comments.
Sincerely,
Paul

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Friday, January 20, 2017 6:54 PM
To: Patricia O'Malley
Cc: Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject: Re: [Not Virus Scanned] RE: Done!

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Any last comments to be provided prior to Monday a.m. at latest! If no further comments it would also be helpful if you could confirm approval of this draft.

Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
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From: "Patricia O'Malley" <plomalley@outlook.com>
To: Murray Gold <mgold@kmlaw.ca>, Uros Karadzic <uros.karadzic@ca.ey.com>, "Martin, Paul (FIN)" <Paul.Martin@gnb.ca>
Cc: Lucy Durocher/CA/ABAS/PwC@Americas-CA, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
Date: 01/20/2017 04:40 PM
Subject: [Not Virus Scanned] RE: Done!

Sorry. As Lucy has pointed out, I attached the wrong file in my eagerness to get it out.
Have a good weekend!

From: Patricia O'Malley
Sent: 20-Jan-17 12:36
To: 'Murray Gold' <mgold@kmlaw.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>
Cc: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Subject: Done!

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I think the aim should be to deliver it first thing Monday morning. Have a good weekend.
Tricia[attachment "PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 19 to'm.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

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37 - Email - January 22 2017 - RE_ [Not Virus Scanned] RE_ Done!.pdf

From:	Patricia O"Malley
To:	lucy.durocher@ca.pwc.com
Cc:	Murray Gold; Tam, Nelson (TBS); Martin, Paul (FIN); Uros Karadzic
Subject:	RE: [Not Virus Scanned] RE: Done!
Date:	January-22-17 4:07:24 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 20.docx

Guess I should attach the file!

From: Patricia O'Malley
Sent: 22-Jan-17 16:06
To: 'lucy.durocher@ca.pwc.com' <lucy.durocher@ca.pwc.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: RE: [Not Virus Scanned] RE: Done!

A couple of very tiny nits. That's it from me. It's good to go.
Tricia

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: 20-Jan-17 17:54
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
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PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to negotiation by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS?

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be

CONFIDENTIAL DRAFT

financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210 repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the measurement uncertainty inherent in both the

CONFIDENTIAL DRAFT

measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of defined benefit accounting to joint defined benefit plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan.) A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining the government's portion of that net pension asset or net pension liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which would reflect the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP. Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus. It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with a net pension asset is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel view – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, they have a reasonable expectation that, if there is any surplus in the plan generated from those contributions, future contributions could be reduced. That reduction would free up revenue to be used to meet other government obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms to achieve these future contribution reductions.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

CONFIDENTIAL DRAFT

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 set out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors' recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b)) or through reduced contributions (addressed in PS 3250.056 (a)).

As the Panel concluded that the Ontario Provincial Government does not currently have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may expect a future benefit based on the withdrawal of surplus.

If a net pension asset could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would essentially amount to a recognition issue. Without a legally enforceable right to withdraw surplus, there would be no expected future benefits – a full valuation allowance would be required. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to 'legally enforceable rights' and 'regulatory approvals' are not applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is

CONFIDENTIAL DRAFT

generally permissive in regards to contribution holidays. It requires nothing in the way of regulatory approvals or consent in order for a sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel view – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel view – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

CONFIDENTIAL DRAFT

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan certainly affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when they must be specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

CONFIDENTIAL DRAFT

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

CONFIDENTIAL-DRAFT

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB’s initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

CONFIDENTIAL DRAFT

[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial statement objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government partnership

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Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

CONFIDENTIAL DRAFT

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of contingent assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

CONFI

37 - PENSION ASSET EXPERT ADVISORY PANEL Draft for approval January 20.docx

PENSION ASSET EXPERT ADVISORY PANEL

REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored defined benefit pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of net pension assets arising in other pension plans is not addressed in this report.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan-specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government entered into contractual

CONFIDENTIAL DRAFT

arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are similar categories of defined benefit plans including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and rewards[1] of a defined benefit plan with plan participants, represented by an employee sponsor or sponsors [based on PS 3250.79]. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members.
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan.
- The sponsors share, on an equitable basis, the significant risks (both positive and negative) associated with the benefit plan. The government does not retain the residual risks of the plan.

[Based on PS 3250.80]

By definition, neither sponsor has unilateral control over a JDBP; shared decision-making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor ultimately has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together. The sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities [based on PS 3250.GLOSSARY "Joint defined benefit plan"]. A defined benefit plan which shared only the risks (downsides) and not the rewards (upsides) between the sponsors would not meet the definition of a JDBP under PSAS.

[1] Editorial note: PS 3250 uses "rewards" and "benefits" interchangeably. For consistency this report uses "rewards". The Panel noted that the equally authoritative French version of PS 3250 uses a single term - "avantages".

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement. It was subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan - both the upside and downside of plan performance are equitably shared. In addition, the employee Sponsor received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer Sponsor and the employee Sponsor, the move from single sponsored plans to jointly sponsored plans was considered by all parties to be a fair and equitable arrangement.

OTPP – structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the *Teachers' Pension Act*, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the employers matched the members' contributions, based on the members' contributions in the year before the preceding year. This resulted in contributions being made on an approximate 50/50 basis between employers and members, except when specifically agreed otherwise.

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA, although the Sponsors may elect to file a valuation more frequently. This actuarial valuation must be "actuarially balanced", that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the current benefits and contribution levels of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA – any deficiency must be funded and any surplus must utilized for increased benefits or reduced contributions or deliberately retained as a reserve.

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation.

The joint sponsors implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the

CONFIDENTIAL DRAFT

sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Sponsors to negotiate either lower contributions or temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing on the funding thresholds in the FMP and the actions to be taken at each threshold, the Sponsors agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to negotiation by the partners. In this report, the terms "contribution reductions" and "contribution holidays" are used synonymously and include both full and partial contribution reductions taken by the Sponsors.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated. The plan does not specify any minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

CONFIDENTIAL DRAFT

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules, are the responsibility of the Sponsors. Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag.

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently.

In the event that a funding valuation discloses a surplus, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use it to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize it at its discretion. Both Sponsors' RSF decisions can be made unilaterally without agreement from the other Sponsor and are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities. Each Sponsor's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified. Contributions can be changed by agreement of the joint sponsors or through the use of their respective RSFs. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring consent from the other joint sponsor.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency.

The plan text clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays,

CONFIDENTIAL DRAFT

however, are explicitly not considered to be a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario in accordance with PS 3250, *Retirement Benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The objective of pension plan accounting is to measure the cost of the pension benefit promises made to employees and allocate that cost to the periods in which those employees provide services. To this end, an actuarial valuation is prepared which reflects the Sponsor's best estimate of:

- The surplus or deficit in the plan at the end of the year; and
- The cost of pension benefits for the services employees provided during the year.

This accounting valuation is different from the "funding valuation" prepared for filing with the pension regulator – the Financial Services Commission of Ontario (FSCO) - as the objective of a funding valuation is to determine the level of contributions needed from employees and employers to adequately fund the plan.

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB) and published in the CPA Canada Public Sector Accounting Handbook. PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

Sources of guidance to be used in determining appropriate accounting policies are found in PS 1150, *Generally Accepted Accounting Principles* (PS 1150). First, a government follows any specific public sector accounting standard that relates to the issue under consideration. That is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement Benefits*

CONFIDENTIAL DRAFT

(PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines, and contains specific guidance on accounting for, joint defined benefit plans.

PS 1000 *Financial Statement Concepts* (PS 1000) describes the concepts underlying the development and use of accounting principles in government financial statements. If the concepts of PS 1000 are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [based on PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles underlying the primary source of GAAP [based on PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP and for assistance in applying a primary source of GAAP to specific circumstances [based on PS 1150.19]. The Panel observed that the IPSASB has a mandate to set accounting standards for the Public Sector internationally. Standards set by IPSASB (International Public Sector Accounting Standards or IPSAS) are applied in a number of jurisdictions globally and the current Chair of PSAB is a voting member of IPSASB.

PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [based on PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* (PS 1100) and are therefore a relevant source of guidance when determining appropriate accounting policies.

Consistent with the requirements of PS 1150, the Panel therefore contemplated not only the guidance found in PS 3250, the primary source of GAAP relating to the recognition and measurement issues addressed in this report, but also the concepts in PS 1000, the objectives of financial statements in PS 1100 and relevant guidance issued by other

CONFIDENTIAL DRAFT

standard setters to ensure its analysis was complete and robust. The Panel was particularly guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term [based on PS 1000.15].

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability and for decision-making purposes. Among other things, users of the GPFSs of governments need information to validate assessments of the resources currently available to support present activities, meet liabilities and contractual obligations, and for future expenditures to support service delivery activities. Users also need to understand to what extent there are restrictions or conditions attached to the use of such resources [based on PS 1000.21; PS 1100.20].

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments [based on PS 1000.26].

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality [based on PS 1000.29].

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and

CONFIDENTIAL DRAFT

events affecting the government would be incomplete and, therefore, potentially biased [based on PS 1000.29].

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. By definition, relevant information is capable of influencing users' assessments and decisions.

➢ What does "conservatism" mean and how should it be applied?

PS 1000 of the CPA Canada Public Sector Accounting Handbook describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.

CONFIDENTIAL DRAFT

> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. In its 2014 update of its conceptual framework, IPSASB removed explicit references to "prudence", explaining that "the need to exercise caution in dealing with uncertainty" was implicit in the discussion of neutrality. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of both the IASB and IPSASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. Moreover, as they cannot determine the degree of conservatism applied in a set of financial statements, users' ability to make comparisons between governments and over time is impaired.

➢ What is the definition of an asset under PSAS?

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets* (PS 3210), assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained [PS 1000.35]. Assets may be

CONFIDENTIAL DRAFT

financial resources or non-financial resources. Assets are defined in PS 1000.36 as follows:

> Assets have three essential characteristics:
>
> (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
>
> (b) the government can control access to the benefit; and
>
> (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. PS 3210 repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including the concepts of control, economic benefit and risk to a net pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 states that:

> A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
>
> (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;
>
> (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
>
> (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Under PSAS, the economic resource in question is the net pension asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting net pension asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires a net pension asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the measurement uncertainty inherent in both the

CONFIDENTIAL DRAFT

measurement of the plan assets and the accrued benefit obligation [based on PS 3250.17; PS 3250.50]

PS 1000 also provides the following criteria for recognizing an item that meets the definition of an asset in the financial statements:

a) It has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) It is expected that such benefits will be obtained or given up.

[Based on PS 1000.55]

This second criterion requires future economic benefits to be *expected,* not that they must be certain. PS 1000.56 states that:

> "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty"

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 defines what the *expected future benefits* of a net pension asset are in satisfying the general recognition criterion in the context of defined benefit pension plans [based on PS 3250.GLOSSARY "Expected future benefit"].

In this report a "net pension asset" means an "accrued benefit asset" as defined under PS 3250 and a "net defined benefit asset" as defined under IPSAS 39.

Panel analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of the Ontario Provincial Government's share of the Plans when they are in a net pension asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

Recognition - Issue 1

Application of defined benefit accounting to joint defined benefit plans

PS 3250.81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A – Divide the plan between the sponsors’ respective portions; the government applies all the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B – The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; the government then recognizes only its portion of the plan in its financial statements.

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then determining whether any valuation allowance is required for any net pension asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any net pension asset that arises on the plan as a whole. The government then calculates its portion of the net pension asset, net of any valuation allowance, in determining the amount of asset to recognize in the Public Accounts. The contractual arrangements, including the rights of the Sponsors jointly or individually, would be considered in determining the government’s portion of the JDBP.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors result in joint control over the plan as a whole and not unilateral control by each sponsor over its share of the plan. (In the case of OPSEUPP it is noted that each Sponsor has unilateral control over how it utilizes its RSF, but this does not equate to

CONFIDENTIAL DRAFT

unilateral control and decision-making over a portion of the entire plan.) A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole.

To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole, would not be a consistent approach. This is because the Asset Ceiling Test includes amounts for future accruals for service that are calculated on a whole plan basis consistent with the measurement of the accrued benefit obligation.

As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan, it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan. The main difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the net pension asset or net pension liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining the government's portion of that net pension asset or net pension liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity - the plan - not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which would reflect the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent with the treatment of certain other arrangements subject to shared control (e.g., Government Business Partnerships in PS 3060), to calculate the net assets or liabilities in the plan before determining what portion of those net assets or liabilities the sponsor recognizes.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text provide that the entitlement to gains or surplus under the plan (rewards) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act*. These have historically been shared on a 50/50 basis when considered over the long term.

CONFIDENTIAL DRAFT

The OPSEUPP plan indicates that any funding surplus is allocated between the employers and members on a 50/50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their portion of the funding surplus at different times, as historically has been the case. For accounting purposes, the net pension asset is determined based on the full plan using "best estimate" assumptions. While the RSFs are based on funding surplus, each Sponsors' share of net pension asset is affected by the relative position of their RSF as compared to the other Sponsor's RSF. For example, to the extent that Sponsor A has taken a benefit by utilizing their RSF and Sponsor B has not, Sponsor A's share of the net pension asset would be reduced accordingly.

Panel View – Issue 1

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve in determining its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

Recognition - Issue 2

Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans*, a net pension asset is an economic resource that exists in the pension plan. For the Plans, the question is whether the net pension asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in *Recognition – Issue 3* below.

Economic resource

Consistent with the discussion in *Recognition – Issue 1* above, a joint sponsor accounts for its portion of a net pension asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is a net pension asset (net of any valuation allowance – see *Measurement*

CONFIDENTIAL DRAFT

Issues), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably apportioned between the two sponsors, as equitable sharing of risks and rewards is a basic tenet of JDBP accounting.

Ability to benefit

The conclusion above is the result of applying PS 3250.81 to a net pension asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY "Accrued benefit asset", which are primary sources of GAAP. Consequently, it would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, that is taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service, that is a contribution holiday, resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to provide goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus. It is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of FSCO. In addition, either legal entitlement to the surplus must be established

CONFIDENTIAL DRAFT

or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for FSCO review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Ontario defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in case of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. When a funding valuation incorporates margins for conservatism, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater

CONFIDENTIAL DRAFT

extent than the other sponsor, or that one Sponsor might have an obligation for the liability but no access to any asset, as this would be contrary to the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP with a net pension asset is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicates that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan surplus accrues to the joint sponsors, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in *Recognition – Issue 3* below.

Contingent asset considerations

The Panel considered whether the nature of the net pension asset is a contingent asset, and whether PS 3320, *Contingent Assets* could apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset" [PS 3320.03]. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

A net pension asset is not an uncertain economic resource. While uncertainty exists about the measurement of a net pension asset, there is no uncertainty about whether the plan exists, and therefore about the existence of any estimated net pension asset. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information becomes available in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events that require third party consent, such as regulatory approvals, nor are there any governance level changes, such as amendments to sponsor surplus/liability sharing provisions, that are required before the plan sponsors can jointly benefit from any surplus assets in the plan.

CONFIDENTIAL DRAFT

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of a net pension asset in a JDBP plan.

Panel view – Issue 2

The net pension asset meets the definition of an economic resource because it exists and future benefit is available to the Sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Recognition – Issue 3

Definition of an asset - Control

As noted in *Determination of relevant accounting guidance and assessing accounting policies applied to pension plans,* a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access by the other sponsor to the government's share, and vice versa.

As noted in *Recognition – Issue 2* above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to full or partial contribution reductions as a means to use any surplus assets in the plans. Collectively, the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the

CONFIDENTIAL DRAFT

economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also indicate that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in the year it is earned even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships including assets and operations under shared control – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally. Similar to joint defined benefit plans, PS 3060 links shared control with the sharing of risks and rewards of the arrangement to support asset recognition for government partnerships and government business partnerships.

If a jointly controlled resource can never meet the criteria to be recognized as an asset, it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is clearly an acceptable concept under PSAS that shared control is sufficient to justify the recognition of the government's portion of a jointly controlled asset. It seems logical that this concept should also apply to a net pension asset of a JDBP.

Indeed, requiring unilateral control for asset recognition in JDBPs would preclude any assets ever being recognized in such plans by definition. Such a position seems inconsistent with the PS 3250 requirement for JDBPs to be accounted for using the guidance that applies to defined benefit plans with no exclusion of the guidance for recognizing and measuring a net pension asset. In the context of PS 3250, and consistent with the Panel's views expressed in *Recognition – Issue 1* the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors in the shared control group each recognize their share. This accounting is consistent with the accounting required by PS 3060 for other arrangements under shared control where risks and rewards are equitably shared. As with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of, or from, assets under shared control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor/partner has an effective veto.

CONFIDENTIAL DRAFT

Panel view – Issue 3

Unilateral control of the timing and amount of surplus utilization a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

Recognition – Issue 4

Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and rewards of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in *Measurement Issues* below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, by definition, this asset would meet the recognition criteria in PS 1000.

CONFIDENTIAL DRAFT

Panel view – Issue 4

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel view – Recognition issues

PS 3250 requires the recognition of an asset for the Ontario Provincial Government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset which represents an economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and rewards of the plan are shared equitably between the Joint Sponsors.

In the cases of OTPP and OPSEUPP, the Panel considers that because Ontario taxpayers are funding the employer contributions, they have a reasonable expectation that, if there is any surplus in the plan generated from those contributions, future contributions could be reduced. That reduction would free up revenue to be used to meet other government obligations. The recognition of an asset for a net pension surplus is consistent with this expectation and the terms of the Plans provide mechanisms to achieve these future contribution reductions.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of a net pension asset (an "accrued benefit asset")

When an asset is recognized in financial statements, accounting standards almost always require a valuation test to ensure that the amount recognized is recoverable –

CONFIDENTIAL DRAFT

that is, the government continues to expect that future economic benefits in that amount will be obtained. Assets that arise from pension plans are no exception, and PS 3250 paragraphs 50 to 59 set out how this test is performed when there is a net pension asset. This is known as the "Limit on the Carrying Amount of an Accrued Benefit Asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in *Recognition – Issue 1*, the guidance on defined benefit plans is applied to JDBPs prior to the government's recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors' recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)" [PS 3250.GLOSSARY "Accrued benefit asset"].

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "An adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains" [PS 3250.GLOSSARY "Adjusted benefit asset"]. This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains. In the cases of both OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [based on 3250.54], and specifies how the expected future benefit is to be calculated:

> 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 [PS 3250.56].
>
> The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

CONFIDENTIAL DRAFT

Measurement – Issue 1

Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in *Recognition – Issue 4* above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, that is, the expected future benefits that can be obtained from the asset [based on PS 3250.55]. As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus (addressed in PS 3250.056 (b)) or through reduced contributions (addressed in PS 3250.056 (a)).

As the Panel concluded that the Ontario Provincial Government does not currently have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a government to have a legally enforceable right to withdraw a plan surplus before an expected future benefit can be recognized for a withdrawal of that surplus. As noted in *Recognition – Issue 2*, pension legislation and case law in Canada have imposed significant limitations on an employer's right to withdraw surplus from a pension plan, and the requirement in paragraph 59 aligns with these limitations by requiring a 'legally enforceable right' to withdraw surplus, as well as completion of all regulatory approvals, before a government may expect a future benefit based on the withdrawal of surplus.

If a net pension asset could be supported only by a legally enforceable right to withdraw surplus, the requirements in paragraph 59 would essentially amount to a recognition issue. Without a legally enforceable right to withdraw surplus, there would be no expected future benefits – a full valuation allowance would be required. The effect would be that net pension assets would rarely, if ever, be reported.

However, the Panel observes that the Asset Ceiling Test includes the measurement of expected future benefits that can be obtained by the Sponsor through reduced contributions. The ability of the Ontario Provincial Government as joint Sponsor to benefit from reduced contributions has been addressed in the Recognition Issues section of this report. This Measurement Issues section examines how the benefit of that asset is measured. The Panel believes that the paragraph 59 requirements regarding legally enforceable rights and regulatory approvals apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). While sensible in the context of a surplus withdrawal, the references to 'legally enforceable rights' and 'regulatory approvals' are not applicable to contribution reductions. While pension legislation prohibits or closely regulates surplus withdrawals, the same legislation is

CONFIDENTIAL DRAFT

generally permissive in regards to contribution holidays. It requires nothing in the way of regulatory approvals or consent in order for a sponsor to take a contribution reduction on the basis of a plan surplus. For these reasons, contribution holidays are a common feature of the Canadian pension landscape; surplus withdrawals from ongoing plans are rarely if ever undertaken.

In the context of the standard it is clear that paragraphs 57 and 58 interpret the requirements of paragraph 56 (a) and paragraph 59 interprets the requirements of paragraph 56 (b). Therefore, in the Panel's view, it is not appropriate to apply the guidance in paragraph 59 regarding withdrawal of plan surpluses to the substantively different circumstances of contribution holidays. Instead paragraphs 57 and 58 should be applied for contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between government and employees, which for sole-sponsored plans would generally be relevant only when there is a planned withdrawal, termination or wind-up. For JDBPs such as OTPP and OPSEUPP, existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis that are already current and in effect. These plan arrangements do not require any changes in that allocation for a joint sponsor to access an expected future benefit. This is explicit in the OPSEUPP arrangements that allocate the funding surplus to each joint sponsor, but is also implicit in the governance mechanisms of OTPP.

Even if paragraph 59 were read to apply to accessing the expected future benefit through contribution reductions, the joint sponsors, collectively, are currently legally entitled to take contribution reductions to utilize plan surplus, to be shared between them in accordance with the existing plan arrangements.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer that it will always match the members' fixed contributions, contribute a specified dollar amount, or when there is a floor in contribution requirements, all of which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The current arrangement that the employers match the year preceding the prior year's contribution level by members is by agreement of the joint sponsors. However, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see *Recognition – Issue 2* above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. This is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Some other jurisdictions in Canada disclose that they do not recognize a net pension asset for certain JDBPs. The Panel has not examined these other plans as part of its mandate and cannot comment on the appropriate accounting for other plans. The Panel observes that the facts and circumstances of any plan should be carefully considered in determining whether a net pension asset can be realized. For example, the Consolidated Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2015 discloses "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." This indicates that the plan arrangements regarding the determination of contribution levels may differ fundamentally from those of OTPP and OPSEUPP as described above.

Panel view – Issue 1

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

Measurement – Issue 2

Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return on assets rate.

Panel view – Issue 2

The guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

Measurement – Issue 3

What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires "minimum contributions that the government is required to make regardless of any surplus" to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in *Measurement – Issue 1,* the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

CONFIDENTIAL DRAFT

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process until the plan is actuarially balanced before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no minimum contributions that must be made "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors that cannot be negotiated to make the funding valuation actuarially balanced. The sponsors can agree to any level of contributions as long as the result is actuarially balanced, so the level of surplus in the Plan certainly affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability of contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status – a funding surplus creates higher stabilization reserves that a Sponsor can use to reduce contributions – and therefore there are no minimum contributions that can be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any further agreement between the joint sponsors, the existing contribution levels are "fixed" and cannot be changed. However, as noted above, for OTPP the requirement to file an actuarially balanced funding valuation means that the current level of contributions is not "fixed" past the next filing date because the plan documents *require* that the Sponsors negotiate how a funding surplus/deficit is dealt with or else a resolution will be imposed by arbitration. In other words it is not reasonable to expect the "status quo" contribution rates to remain in place indefinitely if they result in a funding surplus (or deficit). The joint Sponsors have agreed the current contributions are to be in effect only until the next funding valuation is required to be filed when they must be specifically reconsidered even if the outcome is that they are unchanged.

Similarly for OPSEUPP, the existing contribution levels are not fixed because if they result in sufficient RSFs a Sponsor can choose to utilize its RSF to reduce its contributions regardless of the other Sponsor's contributions.

CONFIDENTIAL DRAFT

OTPP and OPSEUPP are dissimilar to certain other plans, such as some target benefit pension plans in New Brunswick, where the government's contribution rates are subject to a pre-determined narrow fixed range as set out in the plan's governing documents. The ability for the government to take contribution reductions is therefore limited.

Measurement – Issue 4

What are the required employee contributions?

In a JDBP, by definition the funding contributions are shared mutually between the government and the plan members. The joint sponsor representing the plan members uses its shared control to agree with the employer joint sponsor the level of contributions that both the employers and the employees will make. Therefore the same mechanisms that are considered in determining whether there are any minimum contributions that the government must make (see discussion above) would also be considered in determining whether there are any required employee contributions. The standard is not clear as to whether the employee contributions are those that are required to be made "regardless of any surplus", but in the context of JDBPs the fundamental premise of mutual funding would suggest that symmetry in this definition is appropriate. In the case of OTPP, required employee contributions are those that have been agreed upon for the period up to when the next actuarial valuation must be filed for the Plan (not more than three years). For OPSEUPP, the employee Sponsor can choose to utilize its RSF to reduce employee contributions that would otherwise be required indicating there are no required employee contributions, regardless of any surplus.

Panel view – Issues 3 and 4

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEUPP, based on different assumptions regarding what minimum contributions were required under each plan "regardless of any surplus". For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contributions until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the *Income Tax Act (Canada)* would be expected to become effective. In no case were the expected future benefits determined to be less than the net pension asset, so no valuation allowance was required.

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Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” or employee contributions that are required regardless of any surplus for either OTPP or OPSEUPP.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays. Therefore, the expected future benefits for a Plan should be determined as 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. For both OTPP and OPSEUPP there are no minimum contributions that the government or employees are required to make regardless of any surplus for periods.

The expected future benefits would be calculated based on the plan as a whole. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions (if any) and government minimum contributions regardless of any surplus (if any), is sufficient to support the net pension asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP net pension asset and the OPSEUPP net pension asset.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB’s initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

CONFIDENTIAL DRAFT

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act,* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook[2]

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.14-.18 Users and user information needs

.14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.

.15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

.16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.

.17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.

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[2] All extracts from the CPA Canada Public Sector Accounting Handbook used within this report are copyright © CPA Canada 2017.

.18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

PS 1000.21 Financial statement objectives

.21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, and are consistent with the financial statement concepts of this Section.

PS 1000.23 -.31 Qualitative characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial

CONFIDENTIAL DRAFT

impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and

CONFIDENTIAL DRAFT

adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty

CONFIDENTIAL DRAFT

exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

CONFIDENTIAL DRAFT

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

CONFIDENTIAL DRAFT

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

AL DRAFT

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt

position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific

circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

CONFIDENTIAL DRAFT

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector

CONFIDENTIAL DRAFT

Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3060, Government Partnerships

PS 3060.06 Definitions

.06 The following definitions have been adopted for the purposes of this Section:

A government partnership is not a government organization but is a contractual arrangement[2] between the government and a party or parties outside of the government reporting entity[3] that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the government partnership;

(c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

Footnote 2 – A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A [of PS 3060. Chart not included in this report]

Footnote 3 - In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

CONFIDENTIAL DRAFT

PS 3060.11-22 – Elements that define a government partnership

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Contractual arrangement

.11 A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. This characteristic of shared control distinguishes a government's interest in a government partnership from investments in other activities in which the government may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a government partnership set out in paragraph PS 3060.06, are in substance government partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the government partnership. Such a requirement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the government partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the government partnership;

(b) the appointment of the board of directors or equivalent governing body of the government partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the government partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

CONFIDENTIAL DRAFT

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the government partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the government partnership.

Shared control

.20 Shared control of a government partnership means that the partners make decisions related to the financial and operating activities of the government partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the government partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a government partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. In a government partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, the government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the government retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

CONFIDENTIAL DRAFT

PS 3060.29-.35 - Accounting for the government's interest

Government partnerships other than government business partnerships

.29 Government financial statements should recognize the government's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

.30 Governments may enter into government partnerships that are similar to governmental units 5 except for the extent of government control — the government shares control of the government partnership with its partners, while it controls the governmental unit. Governmental units are government organizations that carry out government activities that are integral to a government's operations in directly performing its executive function and are consolidated in the government's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Government partnerships that carry out similar activities to governmental units would be accounted for using proportionate consolidation.

.31 Proportionate consolidation of such government partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the government as would be available if the government managed the resources and operations through a governmental unit. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the government's statement of operations, the financial resources available, and the risks to which the government is exposed for such activities.

Government business partnerships

.32 Government business partnerships should be accounted for by the modified equity method applied using the government's share of the government business partnership.

.33 Governments may enter into government business partnerships that are similar to government business enterprises [6] except for the extent of government control. Such government partnerships may also carry out similar activities to government business enterprises. A government business partnership differs from other government partnerships in its relationship to the government, and its objectives and operations. A government business partnership represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, [7] equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for government business partnerships.

.34 Accounting for government business partnerships by the modified equity method avoids commingling the budget and actual results of government business partnerships on a line-by-line basis with those of government activities having different objectives. It also avoids including the government's share of the gross debt of government business partnerships with the gross debt of other government organizations, as the government business partnerships are expected to repay that debt from their own revenues.

CONFIDENTIAL DRAFT

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those government business partnerships. It provides a measure of the impact that government business partnerships may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

PS 3210, Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3320, Contingent Assets [effective for annual periods beginning on or after April 1, 2017, early application permitted]

PS 3320.03 Definition

.03 Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

PS 3320.04 - .07 Characteristics of contingent assets

.04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

.05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

.06 Contingent assets have two basic characteristics:

(a) An existing condition or situation that is unresolved at the financial statement date.

(b) An expected future event that will resolve the uncertainty as to whether an asset exists.

.07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

Existing condition or situation

.08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.

.09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

Confirming future event

.10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.

.11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

CONFIDENTIAL DRAFT

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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From:	Martin, Paul (FIN)
To:	"Patricia O"Malley"; Murray Gold (mgold@kmlaw.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Cc:	Tam, Nelson (TBS); lucy.durocher@ca.pwc.com
Subject:	Draft report
Date:	January-05-17 12:53:41 PM
Attachments:	image001.png PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31 PMartin.docx

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My thoughts and comments provided in the attached document.

Best regards,

Paul

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PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

CONFIDENTIAL DRAFT

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

Commented [PM1]: What are the other categories? Suggest wording be changed.

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies

CONFIDENTIAL DRAFT

that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Commented [PM2]: OPSEUPP write up following this section is full of specific references to sections in the Plan documents. Few to none in the OTPP write up. Should consistently apply – either have in both or not at all.

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It

CONFIDENTIAL DRAFT

develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to Plan changes ~~to the Plan to~~that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, ~~agreement~~ a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

Commented [PM3]: Is this statement accurate. Just because past filings have not left a surplus or deficit does not mean they can't have one in the future.

CONFIDENTIAL DRAFT

The joint sponsors have ~~agreed to~~ a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

Commented [PM4]: Have we defined this acronym?

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

CONFIDENTIAL DRAFT

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets

CONFIDENTIAL DRAFT

and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

Commented [PM5]: What about PS 3250?

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

CONFIDENTIAL DRAFT

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:

CONFIDENTIAL DRAFT

(a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').

(b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:

(i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items ~~that~~ meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP

CONFIDENTIAL DRAFT

for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can ~~be~~ reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different

CONFIDENTIAL DRAFT

sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit ~~on~~ of the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally, defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

CONFIDENTIAL DRAFT

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If

CONFIDENTIAL DRAFT

application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally

Commented [PM6]: Is this a word?

CONFIDENTIAL DRAFT

considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP

Commented [PM7]: Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

CONFIDENTIAL DRAFT

means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

CONFIDENTIAL DRAFT

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other

CONFIDENTIAL DRAFT

parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to

CONFIDENTIAL DRAFT

negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [PM8]: I disagree with this finding. S 3250.60 to 3250.62 – I believe you can have an unamortized asset position and the standard allows for this as appropriate accounting.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true

CONFIDENTIAL DRAFT

economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

Commented [PM9]: Same question as my previous comment.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the ~~L~~limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a

CONFIDENTIAL DRAFT

clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a

CONFIDENTIAL DRAFT

reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any

CONFIDENTIAL DRAFT

agreement, the existing contribution levels are “fixed” and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole sponsored plans and JDBPs

CONFIDENTIAL- DRAFT

may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is

CONFIDENTIAL DRAFT

not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the

CONFIDENTIAL DRAFT

financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

CONFIDEN

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

CONFIDEN

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

4 - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31 PMartin.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

CONFIDENTIAL DRAFT

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

Commented [PM1]: What are the other categories? Suggest wording be changed.

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies

CONFIDENTIAL DRAFT

that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Commented [PM2]: OPSEUPP write up following this section is full of specific references to sections in the Plan documents. Few to none in the OTPP write up. Should consistently apply – either have in both or not at all.

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It

CONFIDENTIAL DRAFT

develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to Plan changes ~~to the Plan to~~that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, ~~agreement~~ a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

Commented [PM3]: Is this statement accurate. Just because past filings have not left a surplus or deficit does not mean they can't have one in the future.

CONFIDENTIAL DRAFT

The joint sponsors have ~~agreed to~~ a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

Commented [PM4]: Have we defined this acronym?

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

CONFIDENTIAL DRAFT

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets

CONFIDENTIAL DRAFT

and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

Commented [PM5]: What about PS 3250?

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

CONFIDENTIAL DRAFT

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:

CONFIDENTIAL DRAFT

(a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').

(b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:

(i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items ~~that~~ meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

CONFIDENTIAL DRAFT

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP

CONFIDENTIAL DRAFT

for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can ~~be~~ reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different

CONFIDENTIAL DRAFT

sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit ~~on~~ of the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally, defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

CONFIDENTIAL DRAFT

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If

CONFIDENTIAL DRAFT

application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally

Commented [PM6]: Is this a word?

CONFIDENTIAL DRAFT

considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP

Commented [PM7]: Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

CONFIDENTIAL DRAFT

means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

CONFIDENTIAL DRAFT

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other

CONFIDENTIAL DRAFT

parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to

CONFIDENTIAL DRAFT

negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [PM8]: I disagree with this finding. S 3250.60 to 3250.62 – I believe you can have an unamortized asset position and the standard allows for this as appropriate accounting.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true

CONFIDENTIAL DRAFT

economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

Commented [PM9]: Same question as my previous comment.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the ~~L~~limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a

CONFIDENTIAL DRAFT

clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a

CONFIDENTIAL DRAFT

reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any

CONFIDENTIAL DRAFT

agreement, the existing contribution levels are “fixed” and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole sponsored plans and JDBPs

CONFIDENTIAL- DRAFT

may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is

CONFIDENTIAL DRAFT

not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the

CONFIDENTIAL DRAFT

financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

5 - EMBARGOED - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31....docx

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PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

CONFIDENTIAL DRAFT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan

CONFIDENTIAL DRAFT

on an equitable basis is commensurate with the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and

CONFIDENTIAL DRAFT

implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

CONFIDENTIAL DRAFT

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

CONFIDENTIAL DRAFT

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets

CONFIDENTIAL DRAFT

and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What place "conservatism"?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Limit guidance”) to the government’s share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government’s portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government’s portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as “Assets” of the sponsor and plan liabilities as “Liabilities” of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an “equity method” of accounting which reflects the sponsor’s interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor’s portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement

CONFIDENTIAL DRAFT

to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset”. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in

CONFIDENTIAL DRAFT

accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the

CONFIDENTIAL - DRAFT

joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the

CONFIDENTIAL DRAFT

OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

CONFIDENTIAL DRAFT

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are

CONFIDENTIAL DRAFT

net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan.

CONFIDENTIAL DRAFT

Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the

CONFIDENTIAL DRAFT

sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

CONFIDENTIAL DRAFT

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution

CONFIDENTIAL DRAFT

rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

CONFIDENTIAL DRAFT

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

CONFIDENTIAL DRAFT

Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

CONFIDENTIAL DRAFT

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will

CONFIDENTIAL DRAFT

inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a

CONFIDENTIAL DRAFT

desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

CONFIDENTIAL DRAFT

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about

CONFIDENTIAL DRAFT

items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

CONFIDENTIAL DRAFT

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically

CONFIDENTIAL

addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

CONFIDENTIAL DRAFT

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector

entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

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.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 expensxes 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.

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PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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International Public Sector Accounting Standards

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

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5 - Email - January 6 2017 - RE_ EMBARGOED - Expert Panel Draft Final Report.pdf

From: Jackson, Sarah (TBS)
To: Tam, Nelson (TBS)
Cc: Sullivan, Bryant (TBS)
Subject: RE: EMBARGOED - Expert Panel Draft Final Report
Date: January-06-17 1:41:15 PM
Attachments: EMBARGOED - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31....docx
Sensitivity: Confidential

Hi Nelson!

Please find attached the formatted draft report for sharing with the Pension Asset Panel.

Quick question to clarify – is Monday's briefing a joint meeting with our DM and Finance?

Thanks and let me know if you have any questions.

P.S. I will call you with the password.

Sarah

Sarah Jackson
Senior Communications Consultant
Treasury Board Secretariat
Ph: 416-212-7790
Email: Sarah.Jackson@ontario.ca

From: Tam, Nelson (TBS)
Sent: January-03-17 10:18 AM
To: Jackson, Sarah (TBS)
Cc: Sullivan, Bryant (TBS)
Subject: EMBARGOED - Expert Panel Draft Final Report
Sensitivity: Confidential

Sarah

As discussed with Erin and Bryant, attached is the draft report from the report writer for Communications' review for formating and accessibility in advance of the finalization.

This document is **not to be shared with anyone** as the Panel members may have additional comments/changes.

Please send back the document with any updates to the formatting and accessibility requirements by **Friday, January 6th at 3PM**. The report writer will use your updated version to make any edits required by the Panel.

The Chair is scheduled to brief TBS and MOF DM on Monday, Janaury 9th.

If you have any questions, please give me a call.

Thanks

Nelson
X20514

EMBARGOED - PENSION ASSET EXPERT ADVISORY PAN.pdf

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6 - Email - January 6 2017 - RE_ Draft Report.pdf

From:	Uros Karadzic
To:	lucy.durocher@ca.pwc.com; Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Subject:	RE: Draft Report
Date:	January-06-17 4:22:31 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31 - UK edits.docx

Happy New Year, all.

Lucy – thank you for a great effort over the holidays. My comments are attached. They are mainly minor edits and clarifications. My most substantive comment is about how we position our recommendations to the PSAB Task Force. See the attached.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

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From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: Saturday, December 31, 2016 3:54 PM
To: Patricia O'Malley <plomalley@outlook.com>
Cc: Murray Gold (mgold@kmlaw.ca) <mgold@kmlaw.ca>; Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Martin, Paul (FIN) (Paul.Martin@gnb.ca) <Paul.Martin@gnb.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Draft Report

Dear All,

I hope everyone had a happy Christmas.

Please find attached the draft report as of today, as well as a document that combines all of the comments, and provides a comment from me on each of them. Generally I accepted all the tracked changes that were suggested, although subsequent further edits may have been made for clarity as items moved around etc.

I hope everyone has a Happy New Year.

Regards,
Lucy

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

PENSION ASSET EXPERT ADVISORY PANEL Draft rep_1.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plans
- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Commented [UK1]: Should we rather say "jointly sponsored"?

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Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan-~~-~~specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and ~~benefits~~ rewards of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and rewards~~benefits, both positive and negative,~~ associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over

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those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to ~~be~~ a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about ~~issues~~ decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor, and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and

CONFIDENTIAL DRAFT

implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers. These contributions are often referred to as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it

CONFIDENTIAL DRAFT

resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that could notcannot be changed through the negotiations.

OPSEUPP – Structure and organization

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Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor, and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment

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strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

Commented [UK2]: We did not quote section references in OTPP paragraphs above. Should we? Or should we remove them from here?

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on ~~how~~ each party's ~~bargains the~~ use of their portion of the surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF,

CONFIDENTIAL DRAFT

either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS

CONFIDENTIAL DRAFT

1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of ~~i~~Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine ~~what~~ its share of the net pension asset of OPSUEPP ~~is~~, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource to the joint plan sponsors existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then ~~a~~each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and

CONFIDENTIAL DRAFT

consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals for the purposes of asset ceiling calculations. This is consistent wit the Auditor General's and Province's interpretations.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets ~~that~~than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can ~~access~~benefit from their portion of any surplus assets through lower future contributions. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan

CONFIDENTIAL DRAFT

arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and ~~therefore~~ both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not. Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan via future contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

CONFIDENTIAL DRAFT

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. This does not appear to be the intention of PSAS. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan as a whole, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

CONFIDENTIAL DRAFT

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While ~~there is no certainty as to~~ the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of ~~that~~ future negotiations ~~will take~~, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support~~s~~ a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the

Commented [UK3]: I'm finding this quite hard to understand. Can we clarify?

Commented [UK4]: What's the inconsistency?

CONFIDENTIAL DRAFT

recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are ~~measured at an amount~~ greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

CONFIDENTIAL DRAFT

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.” This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a “contribution holiday”.

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a

CONFIDENTIAL DRAFT

withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Commented [UK5]: Is this accurate?

Commented [UK6]: It is not the matching that will likely change, but rather the quantum of contributions for both the employer and the employees equally.

Commented [UK7R6]:

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario

CONFIDENTIAL DRAFT

Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a reduction in contributions to the plan and therefore there would be a lesser or no expected future benefit that could be obtained through a contribution holiday/reduction.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be madeagreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon

CONFIDENTIAL DRAFT

contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as the present value of its expected future accruals for service for the current number of active employees, less the present

CONFIDENTIAL DRAFT

value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [UK8]: We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional

CONFIDENTIAL DRAFT

interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be used to settle an obligation should affect how that

CONFIDENTIAL DRAFT

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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

6 - PENSION ASSET EXPERT ADVISORY PANEL Draft report December 31 - UK edits.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plans
- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Commented [UK1]: Should we rather say "jointly sponsored"?

CONFIDENTIAL DRAFT

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding of plan-~~-~~specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and ~~benefits~~ rewards of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and rewards~~benefits, both positive and negative,~~ associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two or more sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over

CONFIDENTIAL DRAFT

those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to ~~be~~ a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about ~~issues~~ decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor, and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and

CONFIDENTIAL DRAFT

implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers. These contributions are often referred to as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it

CONFIDENTIAL DRAFT

resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that could notcannot be changed through the negotiations.

OPSEUPP – Structure and organization

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Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor, and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment

CONFIDENTIAL DRAFT

strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

Commented [UK2]: We did not quote section references in OTPP paragraphs above. Should we? Or should we remove them from here?

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on ~~how~~ each party's ~~bargains the~~ use of their portion of the surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF,

CONFIDENTIAL DRAFT

either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS

CONFIDENTIAL DRAFT

1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.

- What place “conservatism”?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled “prudence”, was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to “prudence”. The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of ~~i~~Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine ~~what~~ its share of the net pension asset of OPSUEPP ~~is~~, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource to the joint plan sponsors existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then ~~a~~each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and

CONFIDENTIAL DRAFT

consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals for the purposes of asset ceiling calculations. This is consistent wit the Auditor General's and Province's interpretations.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets ~~that~~than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can ~~access~~benefit from their portion of any surplus assets through lower future contributions. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan

CONFIDENTIAL DRAFT

arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and ~~therefore~~ both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not. Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan via future contribution reductions.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

CONFIDENTIAL DRAFT

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

CONFIDENTIAL DRAFT

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition. This does not appear to be the intention of PSAS. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan as a whole, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

CONFIDENTIAL DRAFT

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While ~~there is no certainty as to~~ the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of ~~that~~ future negotiations ~~will take~~, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support~~s~~ a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the

Commented [UK3]: I'm finding this quite hard to understand. Can we clarify?

Commented [UK4]: What's the inconsistency?

CONFIDENTIAL DRAFT

recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are ~~measured at an amount~~ greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

CONFIDENTIAL DRAFT

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. “Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.” This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a “contribution holiday”.

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a

CONFIDENTIAL DRAFT

withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Commented [UK5]: Is this accurate?

Commented [UK6]: It is not the matching that will likely change, but rather the quantum of contributions for both the employer and the employees equally.

Commented [UK7R6]:

CONFIDENTIAL DRAFT

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario

CONFIDENTIAL DRAFT

Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a reduction in contributions to the plan and therefore there would be a lesser or no expected future benefit that could be obtained through a contribution holiday/reduction.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be madeagreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon

CONFIDENTIAL DRAFT

contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as the present value of its expected future accruals for service for the current number of active employees, less the present

CONFIDENTIAL DRAFT

value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [UK8]: We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional

CONFIDENTIAL DRAFT

interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be used to settle an obligation should affect how that

CONFIDENTIAL DRAFT

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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

CONFIDEN

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

CONFIDEN

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

7 - Email - January 9 2017 - PENSION ASSET EXPERT ADVISORY PANEL Draft report 12 31 to’m.pdf

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Subject:	PENSION ASSET EXPERT ADVISORY PANEL Draft report 12 31 to"m
Date:	January-09-17 5:39:45 PM
Attachments:	logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png PENSION ASSET EXPERT ADVISORY PANEL Draft report 12 31 to"m.docx

Here are my few comments. I have not duplicated comments made by others.

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PENSION ASSET EXPERT ADVISORY PANEL Draft rep_2.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

CONFIDENTIAL DRAFT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel ~~looked at~~reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). ~~and~~ It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that ~~shape~~ affect how accounting guidance is applied. A detailed understanding of plan-~~-~~specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements ~~are~~ were used ~~for assessing~~to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") ~~in Ontario~~), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans., ~~as t~~ The Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also ~~several~~ similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key feature ~~characteristic~~ of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor ~~defined benefit plans~~ and joint sponsor defined benefit plans is that the ~~ability~~ unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work

CONFIDENTIAL DRAFT

together ~~instead of one sponsor~~. The sharing of the risks and benefits of the pension plan on an equitable basis is ~~commensurate with~~a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to ~~be~~ a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

Commented [MG1]: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

The Panel understands that the essence of ~~motivation for making~~ these changes was ~~for~~ that the Ontario Provincial Government ~~to~~ transferred a share of the risks and costs of the obligation to the members of the ~~p~~Plans. In exchange ~~for taking on a share of the risk and cost of the obligation~~, the members received an equitable share of any surplus in their ~~p~~Plan (both the upside and downside of plan performance are equitably shared). ~~and~~ In addition, the member Sponsors received the right to participate in shared control of their ~~p~~Plan., ~~meaning that t~~ The arrangements contemplate~~s~~ ongoing discussions between the ~~sponsoring parties~~Sponsors of each Plan and joint decision-making about issues ~~decisions~~ such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from ~~a~~ single sponsored plans to a jointly sponsored plans was considered ~~by all parties~~ to be a fair and equitable arrangement by all parties ~~for both sides~~.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

CONFIDENTIAL DRAFT

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives ~~are~~ is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on approximately a 50/~~-~~50 basis between employers and members (except when~~re~~ specifically agreed otherwise).

Commented [MG2]: because the lag means that employer and employee contributions won't be exactly the same.

A current limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits ~~are not paid by the OTPP~~ in a year, the amount of ~~this~~ that benefit reduction is matched by a ~~corresponding~~ contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be ~~prepared~~ filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" ~~which means~~ that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, ~~including~~ plus the present value of the members' and employers' future contributions ~~plus~~ and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced ~~as defined above~~, the joint sponsors must negotiate and agree on what changes to the plan ~~must~~ will be made in order to reach an actuarially balanced valuation ~~that will subsequently~~to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors ~~could~~ can agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary ~~a board of~~~~of~~ the question goes to binding arbitration. However, under the Partners' Agreement, ~~agreement~~ a decision

CONFIDENTIAL DRAFT

must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in ~~an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions~~reporting a surplus or deficit.

The joint sponsors have ~~agreed to~~implemented a Funding Management Policy (FMP) ~~to supplement~~ as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~that once the OTPP meets certain funding thresholds,~~ the Partners ~~must~~ to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when ~~changing~~ benefits or contributions will be ~~taken~~ changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners ~~and must be on an equitable basis (consistent with the definition of a JDBP)~~.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees ~~are~~ is appointed by each of the Ontario Provincial Government and OPSEU.

CONFIDENTIAL DRAFT

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee~~s~~ representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, ~~as~~ agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

Commented [PO3]: ?Isn't this OPTrust? YES (MG)

The Board of Trustees has no power to amend the ~~p~~Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the ~~p~~Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the ~~s~~Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the ~~s~~Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, ~~those net actuarial gains are~~that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. ~~Through collective bargaining~~, ~~a~~An allocation of funding surpluses ~~on a basis that is~~ different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently ~~no different basis of allocating~~ funding surpluses ~~has been agreed~~are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal ~~costs~~ contributions. Similarly, ~~and~~ OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion.~~,~~ Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's ~~s~~Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of

Commented [MG4]: check that this is a typo.

CONFIDENTIAL DRAFT

OPTrust Funding Policy]. ~~There are no restrictions on how e~~Each party's ~~bargains the~~ use of ~~their~~ its surplus is unrestricted. ~~There is n~~No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective ~~surplus portions~~RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce ~~their~~ its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are ~~not treated as~~explicitly not considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The relevant accounting framework as the basis for analysis is ~~performed in accordance with~~ Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government ~~must~~ follows any specific standard that relates to the issue under consideration, that is, ~~to apply~~it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further,

CONFIDENTIAL DRAFT

PS -3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS -1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. ~~and as such~~Consequently, they are currently valid sources of reference as they ~~were developed to be~~are consistent with PS 1000 and are intended to assist governments to apply the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS- 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* ~~and are consistent with PS 1000 concepts. They~~ and are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000, ~~and~~ the objectives of financial statements in PS 1150, ~~as well as~~and relevant guidance issued by other standard setters. ~~and~~ The Panel was particularly ~~were~~ guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on

CONFIDENTIAL DRAFT

them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, ~~it~~ the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality ~~at the time they are included in those statements~~.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the ~~entity~~ government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that ~~it~~ the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- What ~~place~~ does "conservatism" mean and how does it fit?

PS 1000 describes conservatism this way:

CONFIDENTIAL DRAFT

Conservatism

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the ~~new~~ 2010 version of its Framework ~~in 2010~~, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases,

CONFIDENTIAL DRAFT

conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric~~al~~ recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics were referred to as "cookie jar reserves," allowing companies to manage their results to improve users' perception of their performance.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information ~~entails~~ demands that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

ESSENTIAL DRAFT

PS 3210, *Assets*, repeats this definition and expands on the guidance provided by PS 1000. ~~This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which~~ PS 3210 clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits*, issued in 201x, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to ~~assess~~ apply the conceptual definition of an asset, including control, economic benefit and risk concepts to ~~that of~~ a pension asset which typically exists in a separate vehicle~~, a trust,~~ from the sponsors. IPSAS 39.67 notes that:

- ~~-~~an asset exists when a plan has been overfunded or when~~re~~ actuarial gains have arisen (i.e. when there is a surplus for accounting purposes~~), and that~~
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund~~, either directly to the entity or indirectly to another plan in deficit~~. The asset ceiling is the present value of those future benefits.
- ~~-~~Control is ~~as~~ a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit accounting asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as ~~a~~ provisions for adverse deviations. However, under accounting standards, any surplus represents te difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus ~~calculated for~~determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains

Commented [PO5]: This doesn't really add anything to what is quoted just above as coming from 1000 except for the last para on the prev page which is the essential bit we need. Is that from 1000 too or only in 3210?

Commented [PO6]: First time we have used? Need to spell out?

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CONFIDENTIAL DRAFT

and losses ~~due to the deferral provisions~~ and the measurement uncertainty ~~regarding~~ inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following ~~recognition~~ criteria for recognizing assets in the financial statements:

a) ~~That the item~~it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) ~~For an items that involved obtaining or giving up future economic benefits,~~ it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criterion~~a~~ requires ~~that~~ future economic benefits ~~are~~ to be *expected* ~~but do~~ not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 ~~provides an~~ specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also ~~requires~~ assists a net pension asset to meet the general recognition criterion~~a~~, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

Commented [PO7]: This isn't really a view. It is the introduction to the analysis section where we take the facts and apply the relevant literature. Tis title should be bigger than the following subheadings.

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

CONFIDENTIAL DRAFT

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 ~~Paragraph .~~ 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS- 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is an ~~critical~~ important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then ~~applying~~ determining whether any ~~the~~ valuation allowance ~~to~~ is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyse~~i~~s.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. ~~As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different sponsors.~~ A determination of the assets and the obligations of a defined benefit plan can ~~only~~ be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Limit guidance”) to the

Commented [MG8]: Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

CONFIDENTIAL DRAFT

government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that ~~generally~~ defined benefit plan accounting in financial statements ~~is based on a *net* amount of plan assets less accrued benefit obligations.~~reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. ~~Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity.~~ This accounting is ~~more~~ similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan ~~than to a proportionate consolidation accounting~~. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

Commented [PO9]: Personally, I have no idea what PSAB intended because they weren't explicit.

Commented [PO10]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

CONFIDENTIAL DRAFT

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then ~~utilize~~ use its allocated portion as it unilaterally determines. This means that members and employers ~~could utilize~~can use their gains at different times, as historically has been the case. The result~~ing in~~ is that the portion of the plan net asset that relates to the government's share fluctuat~~es~~~~ing~~ as a percentage of the total net asset balance. ~~As a result~~Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any ~~one~~ time, when determining what ~~their~~ its share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource ~~of~~ that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource ~~to~~ of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

CONFIDENTIAL DRAFT

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, ~~(~~i.e., there is an accrued benefit asset~~,~~ (net of any valuation allowance – see Section [x – measurement]), ~~then~~ a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and ~~rewards~~ benefits is a basic tenet of JDBP accounting.

Ability to benefit

~~Notwithstanding that the above~~This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the ~~p~~Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet~~ing~~ this part of the asset definition ~~of an asset~~.

Consistent with PS 3250.052, ~~there are two ways that~~ a sponsor can benefit from a pension surplus in two ways:~~—~~

- withdraw~~ing~~~~al of~~ the surplus, ~~which involves~~ taking cash out of the plan, resulting in a ~~(~~cash inflow for the sponsor~~)~~, or
- ~~contribution holidays, which involves~~ reducing future contributions that would otherwise be payable for future employee service (a contribution oliday), resulting in a ~~(~~reduction of cash outflows for the sponsor~~)~~.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to ~~either~~ withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text~~;~~. ~~c~~Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

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CONFIDENTIAL DRAFT

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

~~Based on the above considerations~~Consequently, the Panel ~~determined~~ concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus or otherwise. ~~It is generally the case that t~~The plan actuary may take surplus into account in determining the required level of employer contributions.; ~~t~~The plan actuary is ~~only~~ prohibited from doing so only when~~re~~ express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively ~~funded~~ managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations." ~~and not~~They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. ~~to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans~~. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

Commented [PO11]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [PO12]: Uros – true?

CONFIDENTIAL DRAFT

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these ~~p~~Plans to the extent ~~there are~~they hold more assets tha~~t~~nt are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation ~~on their side~~ that they can access their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither ~~joint~~ sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the ~~principles of a JDBP and the~~ equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared ~~by both sponsors~~ for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that ~~in both plans~~ the sponsors fund ~~the~~ both ~~p~~Plans on an equitable basis and therefore both ~~joint~~ sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can ~~only~~ accrue only to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue ~~only~~ to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset?

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The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset ~~due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets,~~ there is no uncertainty as to whether the plan exists, and therefore ~~over~~ about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events

CONFIDENTIAL DRAFT

occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. ~~There are n~~No future events are needed to clarify whether the service was provided by the employees ~~or not~~ or whether the plan assets were contributed ~~or not~~.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The ~~accounting asset~~ accrued benefit asset meets the definition of an economic resource because ~~the accrued benefit asset~~ it exists and future benefit is available to the sponsors in accordance with the ~~p~~Plan documents. There is no ~~existence~~ uncertainty regarding the existence or potential benefit of the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource ~~must be controlled by a government~~ for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. ~~which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan.~~ The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. ~~and a~~Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect ~~of this~~ is that each sponsor individually has a veto right for fundamental changes to the Plan or ~~shared~~ decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210. ~~This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.~~

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process.

CONFIDENTIAL DRAFT

That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus~~, as equitable sharing is a key characteristic of a JDBP~~. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. ~~The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors.~~ Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, ~~the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather,~~ the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. ~~This means that c~~Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element~~s~~ of the asset definition ~~is~~ are met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the ~~capital~~ assets held under joint control~~, for example,~~ even though the government cannot control the use of ~~that~~ those asset~~s~~ unilaterally.

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that ~~no investments in~~ government~~s could not recognize their proportionate interests in~~ partnerships ~~could be recognized~~. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of ~~a~~ the portion of a~~n~~ jointly controlled asset ~~that is under shared control~~. It seems logical that this concept should also apply to a pension asset of a JDBP. Like PS

CONFIDENTIAL DRAFT

3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the ~~members of~~sponsors sharing control group each ~~pick up~~recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize ~~their~~ its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. ~~and~~ This supports an expectation that ~~they~~ it would be able to do so in the future, given ~~their~~ its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism ~~also supports~~provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

CONFIDENTIAL DRAFT

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support~~s~~ a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [MG13]: This discussion is not clear to me.

Commented [PO14]: Is this relevant here or can it be deleted? Seems repetitive and out of place.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both ~~p~~Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

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For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for ~~their~~ its portion of a net asset which represents a ~~true~~ economic resource, would not faithfully represent the economic

CONFIDENTIAL DRAFT

substance of a JDBP whereby the risks and ~~rewards~~ benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

Commented [PO15]: Is it actually called this? I have never heard it – usually referred to as asset ceiling in my experience.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, ~~and~~ so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which ~~is recorded against~~reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] ~~Under~~ As previously discussed, the standard ~~there are~~identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions ~~using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday"~~.

As ~~T~~the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. ~~, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above.~~ PS 3250.059 ~~paragraph 59~~ requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last ~~sentence~~one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is ~~not the same as~~significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, ~~it would not be~~in the Panel's view it is not appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing ~~how to agree upon~~decisions about the allocation of surplus on an equitable basis. ~~In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration.~~ There is no need to change the existing rights within the contractual arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to ~~negotiate~~ obtain an expected future benefit. ~~In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools.~~ Consistent with ~~this~~ the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or when~~re~~ there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists ~~I~~in the OTPP ~~there is no such restriction~~. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text ~~agrees to~~specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Commented [MG16]: This pargraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under ~~this~~ the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS~~,~~ unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes~~,~~ that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires ~~that~~ minimum contributions that the government is required to make regardless of any surplus ~~are~~ to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to

CONFIDENTIAL - DRAFT

benefit from ~~obtain~~ a reduction in contributions to the plan~~ and therefore there would be no expected future benefit that could be obtained through a contribution holiday~~.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to ~~take~~ reduce contribution~~s reductions~~.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus~~, and not accounting surplus, and that i~~If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners' Agreement requires ~~that~~ any valuation filed for regulatory purposes ~~must~~ to be ~~an~~ "actuarially balanced"~~ valuation~~, ~~there is~~ no funding surplus ~~that arises~~will exist in those valuations. ~~, as a~~Any ~~preliminary~~ funding surplus in a preliminary valuation must be dealt with through the negotiation process before the final valuation is filed. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, ~~there is also~~ no ~~ultimate~~ funding surplus ~~that~~ is anticipated by the OTPP. ~~They~~ The sponsors can agree to any level of contributions as long as the result is actuarially balanced ~~and~~ so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Commented [PO17]: Not sure what this adds?

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

~~There is also a question as to whether~~It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared

CONFIDENTIAL DRAFT

control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Commented [PO18]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what ~~were~~ the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective~~-~~. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions? is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government Public Accounts ~~would recognize~~should

Commented [PO19]: Do we have doubts about the Deloitte calculation? I thought Uros was satisfied?

Commented [PO20]: Or are we assuming there is not requirement for employee contributions? If so, we need to change the previous two paragraphs to remove both of the deductions. Or leave the exact PS requirement and explain why neither deduction needs to be made.

CONFIDENTIAL DRAFT

reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset ~~in the Public Accounts~~.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making ~~over~~ about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or ~~liability~~ obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

CONFIDENTIAL DRAFT

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized ~~on~~ in financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms ~~used~~ proposed to deal with potential income ~~statement~~ volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that ~~these~~ they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different ~~than~~ from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require ~~that~~ the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Commented [MG21]: Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [MG22]: As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

CONFIDENTIAL DRAFT

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

CONFIDEN

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

7 - PENSION ASSET EXPERT ADVISORY PANEL Draft report 12 31 to’m.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

CONFIDENTIAL DRAFT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel ~~looked at~~reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). ~~and~~ It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that ~~shape~~ affect how accounting guidance is applied. A detailed understanding of plan-~~-~~specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements ~~are~~ were used ~~for assessing~~to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") ~~in Ontario~~), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans., ~~as t~~ The Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also ~~several~~ similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key feature ~~characteristic~~ of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor ~~defined benefit plans~~ and joint sponsor defined benefit plans is that the ~~ability~~ unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work

CONFIDENTIAL DRAFT

together ~~instead of one sponsor~~. The sharing of the risks and benefits of the pension plan on an equitable basis is ~~commensurate with~~a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was converted to ~~be~~ a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

Commented [MG1]: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

The Panel understands that the essence of ~~motivation for making~~ these changes was ~~for~~ that the Ontario Provincial Government ~~to~~ transferred a share of the risks and costs of the obligation to the members of the ~~p~~Plans. In exchange ~~for taking on a share of the risk and cost of the obligation~~, the members received an equitable share of any surplus in their ~~p~~Plan (both the upside and downside of plan performance are equitably shared). ~~and~~ In addition, the member Sponsors received the right to participate in shared control of their ~~p~~Plan., ~~meaning that t~~ The arrangements contemplate~~s~~ ongoing discussions between the ~~sponsoring parties~~Sponsors of each Plan and joint decision-making about issues ~~decisions~~ such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from ~~a~~ single sponsored plans to a jointly sponsored plans was considered ~~by all parties~~ to be a fair and equitable arrangement by all parties ~~for both sides~~.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

CONFIDENTIAL DRAFT

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives ~~are~~ is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on approximately a 50/~~-~~50 basis between employers and members (except when~~re~~ specifically agreed otherwise).

Commented [MG2]: because the lag means that employer and employee contributions won't be exactly the same.

A current limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that OTPP does not pay conditional indexation benefits ~~are not paid by the OTPP~~ in a year, the amount of ~~this~~ that benefit reduction is matched by a ~~corresponding~~ contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be ~~prepared~~ filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" ~~which means~~ that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, ~~including~~ plus the present value of the members' and employers' future contributions ~~plus~~ and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced ~~as defined above~~, the joint sponsors must negotiate and agree on what changes to the plan ~~must~~ will be made in order to reach an actuarially balanced valuation ~~that will subsequently~~to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors ~~could~~ can agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary ~~a board of~~~~of~~ the question goes to binding arbitration. However, under the Partners' Agreement, ~~agreement~~ a decision

CONFIDENTIAL DRAFT

must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in ~~an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions~~reporting a surplus or deficit.

The joint sponsors have ~~agreed to~~implemented a Funding Management Policy (FMP) ~~to supplement~~ as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~that once the OTPP meets certain funding thresholds,~~ the Partners ~~must~~ to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when ~~changing~~ benefits or contributions will be ~~taken~~ changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners ~~and must be on an equitable basis (consistent with the definition of a JDBP)~~.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees ~~are~~ is appointed by each of the Ontario Provincial Government and OPSEU.

CONFIDENTIAL DRAFT

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee~~s~~ representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, ~~as~~ agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

Commented [PO3]: ?Isn't this OPTrust? YES (MG)

The Board of Trustees has no power to amend the ~~p~~Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the ~~p~~Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the ~~s~~Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the ~~s~~Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, ~~those net actuarial gains are~~that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. ~~Through collective bargaining~~, ~~a~~An allocation of funding surpluses ~~on a basis that is~~ different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently ~~no different basis of allocating~~ funding surpluses ~~has been agreed~~are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal ~~costs~~ contributions. Similarly, ~~and~~ OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion.~~,~~ Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's ~~s~~Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of

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CONFIDENTIAL DRAFT

OPTrust Funding Policy]. ~~There are no restrictions on how e~~Each party's ~~bargains the~~ use of ~~their~~ its surplus is unrestricted. ~~There is n~~No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective ~~surplus portions~~RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce ~~their~~ its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are ~~not treated as~~explicitly not considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The relevant accounting framework as the basis for analysis is ~~performed in accordance with~~ Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government ~~must~~ follows any specific standard that relates to the issue under consideration, that is, ~~to apply~~it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further,

CONFIDENTIAL DRAFT

PS -3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS -1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. ~~and as such~~Consequently, they are currently valid sources of reference as they ~~were developed to be~~are consistent with PS 1000 and are intended to assist governments to apply the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS- 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* ~~and are consistent with PS 1000 concepts. They~~ and are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000, ~~and~~ the objectives of financial statements in PS 1150, ~~as well as~~and relevant guidance issued by other standard setters. ~~and~~ The Panel was particularly ~~were~~ guided by the following principles and objectives:

- Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on

CONFIDENTIAL DRAFT

them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

- What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, ~~it~~ the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality ~~at the time they are included in those statements~~.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the ~~entity~~ government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that ~~it~~ the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- What ~~place~~ does "conservatism" mean and how does it fit?

PS 1000 describes conservatism this way:

CONFIDENTIAL DRAFT

Conservatism

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the ~~new~~ 2010 version of its Framework ~~in 2010~~, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases,

CONFIDENTIAL DRAFT

conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric~~al~~ recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics were referred to as "cookie jar reserves," allowing companies to manage their results to improve users' perception of their performance.

- What is the definition of an asset under PSAS

Faithful representation and the need for useful information ~~entails~~ demands that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

ESSENTIAL DRAFT

PS 3210, *Assets*, repeats this definition and expands on the guidance provided by PS 1000. ~~This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which~~ PS 3210 clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits*, issued in 201x, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to ~~assess~~ apply the conceptual definition of an asset, including control, economic benefit and risk concepts to ~~that of~~ a pension asset which typically exists in a separate vehicle~~, a trust,~~ from the sponsors. IPSAS 39.67 notes that:

- ~~-~~an asset exists when a plan has been overfunded or when~~re~~ actuarial gains have arisen (i.e. when there is a surplus for accounting purposes~~), and that~~
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund~~, either directly to the entity or indirectly to another plan in deficit~~. The asset ceiling is the present value of those future benefits.
- ~~-~~Control is ~~as~~ a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit accounting asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as ~~a~~ provisions for adverse deviations. However, under accounting standards, any surplus represents te difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus ~~calculated for~~determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains

Commented [PO5]: This doesn't really add anything to what is quoted just above as coming from 1000 except for the last para on the prev page which is the essential bit we need. Is that from 1000 too or only in 3210?

Commented [PO6]: First time we have used? Need to spell out?

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CONFIDENTIAL DRAFT

and losses ~~due to the deferral provisions~~ and the measurement uncertainty ~~regarding~~ inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following ~~recognition~~ criteria for recognizing assets in the financial statements:

a) ~~That the item~~it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) ~~For an items that involved obtaining or giving up future economic benefits,~~ it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criterion~~a~~ requires ~~that~~ future economic benefits ~~are~~ to be *expected* ~~but do~~ not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 ~~provides an~~ specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also ~~requires~~ assists a net pension asset to meet the general recognition criterion~~a~~, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

Commented [PO7]: This isn't really a view. It is the introduction to the analysis section where we take the facts and apply the relevant literature. Tis title should be bigger than the following subheadings.

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

CONFIDENTIAL DRAFT

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 ~~Paragraph .~~ 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS- 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is an ~~critical~~ important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then ~~applying~~ determining whether any ~~the~~ valuation allowance ~~to~~ is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyse~~i~~s.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. ~~As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings are also measured as a whole, and not split between different sponsors.~~ A determination of the assets and the obligations of a defined benefit plan can ~~only~~ be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the “Limit guidance”) to the

Commented [MG8]: Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

CONFIDENTIAL DRAFT

government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that ~~generally~~ defined benefit plan accounting in financial statements ~~is based on a *net* amount of plan assets less accrued benefit obligations.~~reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. ~~Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity.~~ This accounting is ~~more~~ similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan ~~than to a proportionate consolidation accounting~~. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the

Commented [PO9]: Personally, I have no idea what PSAB intended because they weren't explicit.

Commented [PO10]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

CONFIDENTIAL DRAFT

pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then ~~utilize~~ use its allocated portion as it unilaterally determines. This means that members and employers ~~could utilize~~can use their gains at different times, as historically has been the case. The result~~ing in~~ is that the portion of the plan net asset that relates to the government's share fluctuat~~es~~~~ing~~ as a percentage of the total net asset balance. ~~As a result~~Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any ~~one~~ time, when determining what ~~their~~ its share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource ~~of~~ that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource ~~to~~ of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

CONFIDENTIAL DRAFT

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, ~~(~~i.e., there is an accrued benefit asset~~,~~ (net of any valuation allowance – see Section [x – measurement]), ~~then~~ a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and ~~rewards~~ benefits is a basic tenet of JDBP accounting.

Ability to benefit

~~Notwithstanding that the above~~This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the ~~p~~Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet~~ing~~ this part of the asset definition ~~of an asset~~.

Consistent with PS 3250.052, ~~there are two ways that~~ a sponsor can benefit from a pension surplus in two ways:~~—~~

- withdraw~~ing~~~~al of~~ the surplus, ~~which involves~~ taking cash out of the plan, resulting in a ~~(~~cash inflow for the sponsor~~)~~, or
- ~~contribution holidays, which involves~~ reducing future contributions that would otherwise be payable for future employee service (a contribution oliday), resulting in a ~~(~~reduction of cash outflows for the sponsor~~)~~.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to ~~either~~ withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text~~;~~. ~~c~~Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

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CONFIDENTIAL DRAFT

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

~~Based on the above considerations~~Consequently, the Panel ~~determined~~ concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus or otherwise. ~~It is generally the case that t~~The plan actuary may take surplus into account in determining the required level of employer contributions.; ~~t~~The plan actuary is ~~only~~ prohibited from doing so only when~~re~~ express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively ~~funded~~ managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations." ~~and not~~They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. ~~to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans~~. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

Commented [PO11]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [PO12]: Uros – true?

CONFIDENTIAL DRAFT

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these ~~p~~Plans to the extent ~~there are~~they hold more assets tha~~t~~nt are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation ~~on their side~~ that they can access their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither ~~joint~~ sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the ~~principles of a JDBP and the~~ equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared ~~by both sponsors~~ for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that ~~in both plans~~ the sponsors fund ~~the~~ both ~~p~~Plans on an equitable basis and therefore both ~~joint~~ sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can ~~only~~ accrue only to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue ~~only~~ to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset?

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The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset ~~due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets,~~ there is no uncertainty as to whether the plan exists, and therefore ~~over~~ about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events

CONFIDENTIAL DRAFT

occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. ~~There are n~~No future events are needed to clarify whether the service was provided by the employees ~~or not~~ or whether the plan assets were contributed ~~or not~~.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The ~~accounting asset~~ accrued benefit asset meets the definition of an economic resource because ~~the accrued benefit asset~~ it exists and future benefit is available to the sponsors in accordance with the ~~p~~Plan documents. There is no ~~existence~~ uncertainty regarding the existence or potential benefit of the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource ~~must be controlled by a government~~ for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. ~~which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan.~~ The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. ~~and a~~Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect ~~of this~~ is that each sponsor individually has a veto right for fundamental changes to the Plan or ~~shared~~ decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210. ~~This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.~~

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process.

CONFIDENTIAL DRAFT

That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus~~, as equitable sharing is a key characteristic of a JDBP~~. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. ~~The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors.~~ Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, ~~the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather,~~ the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. ~~This means that c~~Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element~~s~~ of the asset definition ~~is~~ are met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the ~~capital~~ assets held under joint control~~, for example,~~ even though the government cannot control the use of ~~that~~ those asset~~s~~ unilaterally.

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that ~~no investments in~~ government~~s could not recognize their proportionate interests in~~ partnerships ~~could be recognized~~. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of ~~a~~ the portion of a~~n~~ jointly controlled asset ~~that is under shared control~~. It seems logical that this concept should also apply to a pension asset of a JDBP. Like PS

CONFIDENTIAL DRAFT

3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the ~~members of~~sponsors sharing control group each ~~pick up~~recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize ~~their~~ its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. ~~and~~ This supports an expectation that ~~they~~ it would be able to do so in the future, given ~~their~~ its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism ~~also supports~~provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

CONFIDENTIAL DRAFT

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support~~s~~ a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [MG13]: This discussion is not clear to me.

Commented [PO14]: Is this relevant here or can it be deleted? Seems repetitive and out of place.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both ~~p~~Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

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For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for ~~their~~ its portion of a net asset which represents a ~~true~~ economic resource, would not faithfully represent the economic

CONFIDENTIAL DRAFT

substance of a JDBP whereby the risks and ~~rewards~~ benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

Commented [PO15]: Is it actually called this? I have never heard it – usually referred to as asset ceiling in my experience.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, ~~and~~ so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

CONFIDENTIAL DRAFT

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which ~~is recorded against~~reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] ~~Under~~ As previously discussed, the standard ~~there are~~identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions ~~using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday"~~.

As ~~T~~the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. ~~, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above.~~ PS 3250.059 ~~paragraph 59~~ requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last ~~sentence~~one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is ~~not the same as~~significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, ~~it would not be~~in the Panel's view it is not appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

CONFIDENTIAL DRAFT

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing ~~how to agree upon~~decisions about the allocation of surplus on an equitable basis. ~~In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration.~~ There is no need to change the existing rights within the contractual arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to ~~negotiate~~ obtain an expected future benefit. ~~In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools.~~ Consistent with ~~this~~ the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or when~~re~~ there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists ~~I~~in the OTPP ~~there is no such restriction~~. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text ~~agrees to~~specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Commented [MG16]: This pargraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under ~~this~~ the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS~~,~~ unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes~~,~~ that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires ~~that~~ minimum contributions that the government is required to make regardless of any surplus ~~are~~ to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to

CONFIDENTIAL - DRAFT

benefit from ~~obtain~~ a reduction in contributions to the plan~~ and therefore there would be no expected future benefit that could be obtained through a contribution holiday~~.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to ~~take~~ reduce contribution~~s reductions~~.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus~~, and not accounting surplus, and that i~~If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners' Agreement requires ~~that~~ any valuation filed for regulatory purposes ~~must~~ to be ~~an~~ "actuarially balanced"~~ valuation~~, ~~there is~~ no funding surplus ~~that arises~~will exist in those valuations. ~~, as a~~Any ~~preliminary~~ funding surplus in a preliminary valuation must be dealt with through the negotiation process before the final valuation is filed. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, ~~there is also~~ no ~~ultimate~~ funding surplus ~~that~~ is anticipated by the OTPP. ~~They~~ The sponsors can agree to any level of contributions as long as the result is actuarially balanced ~~and~~ so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Commented [PO17]: Not sure what this adds?

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

~~There is also a question as to whether~~It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared

CONFIDENTIAL DRAFT

control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Commented [PO18]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what ~~were~~ the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective~~-~~. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions? is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government Public Accounts ~~would recognize~~should

Commented [PO19]: Do we have doubts about the Deloitte calculation? I thought Uros was satisfied?

Commented [PO20]: Or are we assuming there is not requirement for employee contributions? If so, we need to change the previous two paragraphs to remove both of the deductions. Or leave the exact PS requirement and explain why neither deduction needs to be made.

CONFIDENTIAL DRAFT

reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset ~~in the Public Accounts~~.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making ~~over~~ about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or ~~liability~~ obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

CONFIDENTIAL DRAFT

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized ~~on~~ in financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms ~~used~~ proposed to deal with potential income ~~statement~~ volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that ~~these~~ they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different ~~than~~ from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require ~~that~~ the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Commented [MG21]: Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [MG22]: As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

CONFIDENTIAL DRAFT

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

7A - Email - Janaury 9 2017 - RE_ Expert Panel - Janaury 11 Agenda and December Minutes.pdf

From: Murray Gold
To: Tam, Nelson (TBS); Patricia O"Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Martin, Paul (FIN) (Paul.Martin@gnb.ca); lucy.durocher@ca.pwc.com
Subject: RE: Expert Panel - Janaury 11 Agenda and December Minutes
Date: January-09-17 10:23:38 AM
Attachments: logo_d1ac01ba-f783-4248-82df-84549cb6f0b7.png

All,

Happy New Year! I hope everybody enjoyed the break.

I have reviewed the Report, and am very comfortable with it, and have little to add. I will send mark-ups by the end of today.

I am only available until 1:00 pm on January 11.

Murray

KOSKIE MINSKY
JUSTICE MATTERS

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From: Tam, Nelson (TBS) [mailto:Nelson.Tam@ontario.ca]
Sent: January-09-17 10:17 AM
To: Patricia O'Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Murray Gold; Martin, Paul (FIN) (Paul.Martin@gnb.ca); lucy.durocher@ca.pwc.com
Subject: Expert Panel - Janaury 11 Agenda and December Minutes

Patricia, Uros, Murray, Paul, Lucy

Attached is the agenda for Wednesday, Janaury 11th meeting. The minutes are embedded in the documents.

Looking forward to seeing every after the New Year.

Thanks

Nelson
416-212-7151

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KOSKIE
MINSKY
JUSTICE MATTERS

8 - Email - January 6 2017 - Expert Panel - Draft Report after Communications Review.pdf

From: Tam, Nelson (TBS)
To: lucy.durocher@ca.pwc.com
Subject: Expert Panel - Draft Report after Communications Review
Date: January-06-17 2:21:00 PM
Attachments: PENSION ASSET EXPERT ADVISORY PANEL Draft report January 6.docx

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Lucy

Hope you had a relaxing vacation.

Attached is the report reviewed by Communications for formatting and accessbility. Please use this version to update the changes requested by the Panel.

Thanks

Nelson
416-212-0514

PENSION ASSET EXPERT ADVISORY PANEL Draft rep_3.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding

CONFIDENTIAL DRAFT

of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining

CONFIDENTIAL DRAFT

the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan,

CONFIDENTIAL DRAFT

including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution

CONFIDENTIAL DRAFT

holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017,

CONFIDENTIAL DRAFT

but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What place "conservatism"?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement

CONFIDENTIAL DRAFT

to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset”. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in

CONFIDENTIAL DRAFT

accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the

CONFIDENTIAL - DRAFT

joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the

CONFIDENTIAL DRAFT

OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

CONFIDENTIAL DRAFT

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are

CONFIDENTIAL DRAFT

net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan.

CONFIDENTIAL DRAFT

Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the

CONFIDENTIAL DRAFT

sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

CONFIDENTIAL DRAFT

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution

CONFIDENTIAL DRAFT

rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

CONFIDENTIAL DRAFT

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

CONFIDENTIAL DRAFT

Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

CONFIDENTIAL DRAFT

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will

CONFIDENTIAL DRAFT

inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a

CONFIDENTIAL DRAFT

desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

CONFIDENTIAL DRAFT

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about

CONFIDENTIAL DRAFT

items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

CONFIDENTIAL DRAFT

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically

CONFIDENTIAL

addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

CONFIDENTIAL DRAFT

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector

entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL - DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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International Public Sector Accounting Standards

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

8 - PENSION ASSET EXPERT ADVISORY PANEL Draft report January 6.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- 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.

The Panel looked at certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans") and considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that shape how accounting guidance is applied. A detailed understanding

CONFIDENTIAL DRAFT

of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements are used for assessing existing rights and powers under the arrangements.

Under pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA") in Ontario), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans are jointly sponsored pension plans, as the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also several categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key characteristic of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement as well as arrangements for the administration of the plan
- The sponsors share, on an equitable basis, the significant risks and benefits, both positive and negative, associated with the benefit plan. The government does not retain the residual risks of the plan.

By definition, neither sponsor has unilateral control over a JDBP; shared decision making is an essential attribute. A fundamental difference between single sponsor defined benefit plans and joint sponsor defined benefit plans is that the ability a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors that must work together instead of one sponsor. The sharing of the risks of the pension plan on an equitable basis is commensurate with the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

CONFIDENTIAL DRAFT

OTPP was a single employer sponsored plan until 1992 when it was converted to be a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The motivation for making these changes was for the Ontario Provincial Government to transfer a share of the risks and costs of the obligation to the members of the plans. In exchange for taking on a share of the risk and cost of the obligation, the members received an equitable share of any surplus in the plan (both the upside and downside of plan performance are equitably shared) and the member Sponsors received the right to participate in shared control of the plan, meaning that the arrangement contemplates ongoing discussions between the sponsoring parties and joint decision-making about issues decisions such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risk and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor the move from a single sponsored plan to a jointly sponsored plan was considered by all parties to be a fair and equitable arrangement for both sides.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

CONFIDENTIAL DRAFT

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners Committee, to which an equal number of representatives are appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made typically on a 50:50 basis between employers and members (except where specifically agreed otherwise).

A limited exception to the matching contribution provisions also reflects the sharing principle underlying the OTPP. In the event that conditional indexation benefits are not paid by the OTPP in a year, the amount of this benefit reduction is matched by a corresponding contribution from OTPP employers.

The contractual arrangements require an actuarial valuation for funding purposes to be prepared at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" which means that the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, including the present value of the members' and employers' contributions plus any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced as defined above, the joint sponsors must negotiate and agree what changes to the plan must be made in order to reach an actuarially balanced valuation that will subsequently be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors could agree to changes to the Plan to increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary a board of arbitration. However, under the Partners' Agreement, agreement must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in an imbalance between the promised benefits and any contingency reserve and the plan assets, including the value of future contributions.

The joint sponsors have agreed to a Funding Management Policy (FMP) to supplement the Partners' Agreement, which sets a framework for the sponsors in jointly determining

CONFIDENTIAL DRAFT

the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires that once the OTPP meets certain funding thresholds, the Partners must negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two). By mutually agreeing the funding thresholds in the FMP, the Partners have agreed in principle as to when changing benefits or contributions will be taken as opposed to using or creating contingency reserves. However the FMP does not specify whether contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners and must be on an equitable basis (consistent with the definition of a JDBP).

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. There is no minimum level or fixed range of contributions by members or employers that cannot be changed through the negotiations.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees are appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustees representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, as agreed by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the OPSEU Pension Fund. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the plan,

CONFIDENTIAL DRAFT

including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains after non-defrayed obligations have been met, those net actuarial gains are equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. Through collective bargaining, an allocation of funding surpluses on a basis that is different from 50/50 may be agreed. The Panel understand that currently no different basis of allocating funding surpluses has been agreed. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal costs and OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion, subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. There are no restrictions on how each party bargains the use of their surplus. There is no minimum level or fixed range of contributions by members or employers that cannot be changed by agreement of the joint sponsors or through the use of their respective surplus portions.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce their contributions to zero, without requiring any consent from the joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution

CONFIDENTIAL DRAFT

holidays, however, are not treated as a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General (AG) also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The accounting analysis is performed in accordance with Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government must follow any specific standard that relates to the issue under consideration, that is, to apply every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017,

CONFIDENTIAL DRAFT

but early adoption is permitted and as such, they are valid sources of reference as they were developed to be consistent with PS 1000.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are consistent with PS 1000 concepts. They are therefore a relevant source of guidance when determining appropriate accounting policies.

In considering the recognition and measurement issues addressed in this report, the Panel considered both the concepts in PS 1000 and the objectives of financial statements in PS 1150, as well as relevant guidance issued by other standard setters, and particularly were guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the

CONFIDENTIAL DRAFT

decisions made by users and for assessing accountability. That is, it has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality at the time they are included in those statements.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that it is without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

➢ What place "conservatism"?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the new version of its Framework in 2010, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

CONFIDENTIAL DRAFT

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetrical recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information entails that only items that meet the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future

CONFIDENTIAL DRAFT

economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]

IPSAS 39, *Employee Benefits* explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to assess the conceptual definition of an asset, including control, economic benefit and risk concepts to that of a pension asset which typically exists in a separate vehicle, a trust, from the sponsors. IPSAS 39.67 notes that an asset exists when a plan has been overfunded or where actuarial gains have arisen (i.e. when there is a surplus for accounting purposes), and that an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits. Control is as a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. The accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations use different actuarial methods and assumptions, such as a provision for adverse

CONFIDENTIAL DRAFT

deviations. However, under accounting standards any surplus represents the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus calculated for a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses due to the deferral provisions and the measurement uncertainty regarding both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following recognition criteria:

a) That the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) For an items that involved obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criteria requires that future economic benefits are *expected* but do not need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can be reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 provides an appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also requires a net pension asset to meet the general recognition criteria, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel View

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

CONFIDENTIAL DRAFT

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 Paragraph 81 states “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”.

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors’ respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is a critical interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government’s share, determining the accrued benefit obligation at the government’s share and then applying the valuation allowance to any net accrued benefit asset that arises. Both the Ontario Provincial Government and AG seem to implicitly adopt this view in their analysis.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners’ agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members’ service and earnings

CONFIDENTIAL DRAFT

are also measured as a whole, and not split between different sponsors. A determination of the assets and the obligations of a defined benefit plan can only be made with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Limit guidance") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that generally defined benefit plan accounting in financial statements is based on a *net* amount of plan assets less accrued benefit obligations. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities" of the sponsor, these are presented as a net asset or liability, which reflects that the plan is a separate entity. This accounting is more similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan than to a proportionate consolidation accounting. Therefore, it is therefore also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

CONFIDENTIAL DRAFT

Application to OTPP and OPSEPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then utilize its portion as it unilaterally determines. This means that members and employers could utilize their gains at different times, as historically has been the case resulting in the portion of the plan net asset that relates to the government's share fluctuating as a percentage of the total net asset balance. As a result the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any one time, when determining what their share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine what its share of the net pension asset of OPSUEPP is, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource of the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource to the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to

CONFIDENTIAL DRAFT

benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis (i.e., there is an accrued benefit asset, net of any valuation allowance – see Section [x – measurement]), then a joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and rewards is basic tenet of JDBP accounting.

Notwithstanding that the above position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, the Panel considered whether the plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meeting this part of the definition of an asset.

Consistent with PS 3250.052, there are two ways that a sponsor can benefit from a pension surplus – withdrawal of the surplus which involves taking cash out of the plan (cash inflow for the sponsor), or contribution holidays, which involves reducing future contributions that would otherwise be payable for future service (reduction of cash outflows for the sponsor). In both cases the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor to either withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text; clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement

CONFIDENTIAL DRAFT

to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus. Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEU specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Based on the above considerations the Panel determined that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus. It is generally the case that the plan actuary may take surplus into account in determining the required level of employer contributions; the plan actuary is only prohibited from doing so where express plan provisions require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively funded in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability regardless of economic conditions. As noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations" and not designed to be overly conservative as this would not result in a faithful representation of the asset or liability of the Plans. As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these plans to the extent there are more assets that are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation on their side that they can access their portion of any surplus assets. In fact it would be unreasonable to assume that neither joint sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the principles of a JDBP and the equitable sharing objectives that are consistent with the OTPP and OPSEU plan arrangements. Rather, the economic reality of a JDBP that an economic resource exists and is shared by both sponsors for the benefit of both sponsors.

CONFIDENTIAL DRAFT

An analysis of the plan documents for OTPP and OPSEU indicate that in both plans the sponsors fund the plans on an equitable basis and therefore both joint sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can only accrue to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue only to one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as “possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset”. A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets, there is no uncertainty as to whether the plan exists, and therefore over the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that “The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset”. The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. There are no future events needed to clarify whether the service was provided by the employees or not or whether the plan assets were contributed or not.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in

CONFIDENTIAL DRAFT

accordance with the plan documents. There is no existence uncertainty regarding the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], an economic resource must be controlled by a government to meet the definition of an asset. The Ontario Provincial Government exercises shared control as joint sponsor for OTPP and OPSEUPP which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with and any changes to the contractual arrangements must be agreed by both joint sponsors. The effect of this is that each sponsor individually has a veto right for fundamental changes to the Plan or shared decisions that are made under the existing Plan arrangements. This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or deny access to the plan assets and therefore cannot control access to the economic resource of a net plan asset.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus, as equitable sharing is a key characteristic of a JDBP. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the

CONFIDENTIAL - DRAFT

joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. This means that collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need agree to these contribution reductions and the control elements of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 requires asset recognition for government business partnerships subject to shared control using the modified equity method. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the capital assets held under joint control, for example, even though the government cannot control the use of that asset unilaterally. If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that no investments in government partnerships could be recognized. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of a portion of an asset that is under shared control. It seems logical that this concept should also apply to a pension asset of a JDBP. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan, and then the members of control group each pick up their share.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and can recognize their portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses as resulted in reductions of Employer contributions, even while the

CONFIDENTIAL DRAFT

OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While there is no certainty as to the form of future benefit that future negotiations will take, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past and supports an expectation that they would be able to do so in the future, given their negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism also supports that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to supports a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

CONFIDENTIAL DRAFT

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. For the Ontario Provincial Government to recognize a liability for portion of a net liability but be unable to recognize an asset for their portion of a net asset which represents a true economic resource, would not faithfully represent the economics of a JDBP whereby the risks and rewards of the plan are shared between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are measured at an amount greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Limit guidance" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1] the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Limit guidance should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are

CONFIDENTIAL DRAFT

net unamortized gains, and so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which is recorded against the accrued benefit asset with a corresponding amount recognized in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Limit guidance in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] Under the standard there are two ways that expected future benefits may be realized – through the withdrawal of surplus or through using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".

The Panel did not put any emphasis on expected future benefits arising from withdrawal of plan assets, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above. PS 3250 paragraph 59 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last sentence, specifically refers to a withdrawal of assets from the plan.

CONFIDENTIAL DRAFT

Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is not the same as a withdrawal of surplus, and the concepts are not interchangeable. Therefore it would not be appropriate to analogize guidance that is specific the legal circumstances surrounding surplus withdrawals to contribution holidays.

The last sentence in paragraph 59 refers to changes in the allocation of surplus. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing how to agree upon the allocation of surplus on an equitable basis. In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration. There is no need to change the existing rights within the contractual arrangement in order for the Ontario Provincial Government, as joint sponsor, to negotiate an expected future benefit. In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools. Consistent with this last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur when there is an enduring promise from an employer requiring that it will always match the members' contributions, or contribute a specified dollar amount, or where there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

In the OTPP there is no such restriction. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors and may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text agrees to matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the

CONFIDENTIAL DRAFT

sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under this guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS, unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes, that in addition to the expected future accrual for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the economic benefit.

CONFIDENTIAL DRAFT

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires that minimum contributions that the government is required to make regardless of any surplus are considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to obtain a reduction in contributions to the plan and therefore there would be no expected future benefit that could be obtained through a contribution holiday.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the joint sponsors to take contribution reductions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be funding surplus and not accounting surplus, and that if any contributions are required when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus".

As the OTPP Partners Agreement requires that any valuation filed for regulatory purposes must be an "actuarially balanced" valuation, there is no funding surplus that arises, as any preliminary funding surplus must be dealt with through the negotiation process. A funding surplus could arise prior to the mandatory filing of the next actuarially balanced funding valuation which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be agreed upon by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, there is also no ultimate funding surplus that is anticipated by the OTPP. They can agree to any level of contributions as long as the result is actuarially balanced and so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution

CONFIDENTIAL DRAFT

rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

There is also a question as to whether a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what were the minimum contributions required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective .

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits should be determined as 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.

CONFIDENTIAL DRAFT

The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, if the present value of expected future accruals for service for the current number of active employees is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance would be required. The Ontario Provincial Government would recognize its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset in the Public Accounts.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that funding valuations drive decision making over plan funding including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or liability that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

CONFIDENTIAL DRAFT

Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized on financial statements when there is no underlying economic resource. Although this is not the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms used to deal with potential income statement volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that these do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different than the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require that the discount rate used to measure the liability capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

CONFIDENTIAL DRAFT

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

Appendix A – Pension Plan Governing Arrangements

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will

CONFIDENTIAL DRAFT

inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a

CONFIDENTIAL DRAFT

desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

CONFIDENTIAL DRAFT

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about

CONFIDENTIAL DRAFT

items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

CONFIDENTIAL DRAFT

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically

CONFIDENTIAL

addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

CONFIDENTIAL DRAFT

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

CONFIDENTIAL DRAFT

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector

entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

CONFIDENTIAL - DRAFT

PS 3250.79-.82 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.

.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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

CONFIDENTIAL DRAFT

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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International Public Sector Accounting Standards

IPSASB 39, Employee Benefits

IPSASB 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

9 - Email - January 10 2017 - Updated Report with questions_comments for discussion.pdf

From:	lucy.durocher@ca.pwc.com
To:	Patricia O"Malley
Cc:	Murray Gold (mgold@kmlaw.ca); Tam, Nelson (TBS); Martin, Paul (FIN) (Paul.Martin@gnb.ca); Uros Karadzic (uros.karadzic@ca.ey.com)
Subject:	Updated Report with questions/comments for discussion
Date:	January-10-17 5:57:35 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL Draft report January 11.docx PENSION ASSET EXPERT ADVISORY PANEL Compare Dec 31 to Jan 11.docx

Dear All,

Please find attached the updated report with comments and questions - clean version and tracked changes to the December 31 version.
I plan to circulate how individuals comments were addressed separately for your information.

Looking forward to the further discussions tomorrow.

Lucy

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PENSION ASSET EXPERT ADVISORY PANEL Draft rep_4.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

[NTD - o/s Cover letter? (including mandate summary)

Executive Summary]

CONFIDENTIAL DRAFT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans
- 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 Employment 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.

The Panel reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans.

All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements were used to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans; the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- Funding contributions are shared mutually between the government and plan members [PS 3250.80]
- The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan [PS 3250.80]
- The sponsors share, on an equitable basis, the significant risks and benefits, associated with the benefit plan [Based on PS 3250.82 and PS 3250.GLOSSARY]. The government does not retain the residual risks of the plan. [PS 3250.80]

CONFIDENTIAL DRAFT

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor and joint sponsor defined benefit plans is that the unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors (or more) that must work together. The sharing of the risks and benefits of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was changed to a jointly sponsored arrangement, and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

Commented [LD2]: MG's comments: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

The Panel understands that the essence of these changes was that the Ontario Provincial Government transferred a share of the risks and costs of the obligation to the members of the Plans. In exchange, the members received an equitable share of any surplus in their Plan (both the upside and downside of plan performance are equitably shared). In addition, the member Sponsors received the right to participate in shared control of their Plan. The arrangements contemplate ongoing discussions between the Sponsors of each Plan and joint decision-making about issues such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from single sponsored plans to a jointly sponsored plans was considered to be a fair and equitable arrangement by all parties.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners'

CONFIDENTIAL DRAFT

Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' Partners' Committee, to which an equal number of representatives is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made on an approximate 50/50 basis between employers and members (except when specifically agreed otherwise).

Currently, a limited exception to the matching contribution provisions nevertheless reflects the sharing principle underlying the OTPP; in the event that OTPP does not pay conditional indexation benefits in a year, the amount of that benefit reduction is matched by a contribution from OTPP employers, known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, plus the present value of the members' and employers' future contributions and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced, the joint sponsors must negotiate and agree on what changes to the plan will be made in order to reach an actuarially balanced valuation to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

CONFIDENTIAL DRAFT

The joint sponsors can agree to Plan changes that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary the issue goes to binding arbitration. However, under the Partners' Agreement, a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in filing an actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve.

Commented [LD3]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

The joint sponsors have implemented a Funding Management Policy (FMP) as part of the Partners' Agreement, which sets out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires the Partners to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when benefits or contributions will be changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. Contribution levels can be negotiated with no minimum level or fixed range of contributions by members or employers that must be adhered to in the negotiating process.

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

CONFIDENTIAL DRAFT

Decision making

The Board of Trustees administers the plan and an equal number of trustees is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. An allocation of funding surpluses different from a 50/50 basis may be agreed upon through collective bargaining. The Panel understands that currently funding surpluses are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion. Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada).* The OPTrust

Commented [LD4]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

CONFIDENTIAL DRAFT

Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. Each party's use of its surplus is unrestricted. No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

The relevant accounting framework used as the basis for analysis is Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government follows any specific standard that relates to the issue under consideration, that is, it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically

CONFIDENTIAL DRAFT

addresses the accounting for defined benefit pension plans. Further, PS 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted. Consequently, they are currently valid sources of reference as they are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement Objectives* and are therefore a relevant source of guidance when determining appropriate accounting policies.

In addition to guidance found in PS 3250, a primary sources of GAAP, relating to the recognition and measurement issues addressed in this report, the Panel considered the concepts in PS 1000, the objectives of financial statements in PS 1150 and relevant guidance issued by other standard setters,. The Panel was particularly guided by the following principles and objectives:

- **Financial statements are prepared to provide useful information**

Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on

CONFIDENTIAL DRAFT

them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term "faithful representation" to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government's assets and liabilities, income and expenses.

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that the information is without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

CONFIDENTIAL DRAFT

➢ What does "conservatism" mean and how should it be applied?

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the 2010 version of its Framework, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> > (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or
> >
> > (ii) require the selection of measurement bases that include losses at an earlier stage than gains.
>
> The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.
>
> Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on

CONFIDENTIAL DRAFT

Conceptual Framework Fundamentals and the Reporting Model is consistent with the conclusions of the IASB:

> Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

Faithful representation and the need for useful information demands that only items meeting the definition of an asset under PSAS should be recognized in the financial statements.

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

CONFIDENTIAL DRAFT

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others.

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to apply the conceptual definition of an asset, including control, economic benefit and risk concepts to a pension asset which typically exists in a separate vehicle from the sponsors. IPSAS 39.67 notes that:

- an asset exists when a plan has been overfunded or when actuarial gains have arisen (i.e. when there is a surplus for accounting purposes
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund. The asset ceiling is the present value of those future benefits.
- Control is a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses and the measurement uncertainty inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following criteria for recognizing assets in the financial statements:

CONFIDENTIAL DRAFT

a) it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second criterion requires future economic benefits to be *expected* not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also assists a net pension asset to meet the general recognition criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

Panel Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250.81 states "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".

CONFIDENTIAL DRAFT

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then determining whether any valuation allowance is required for any net accrued benefit asset that arises. Both the Ontario Provincial Government and Auditor General seem to implicitly adopt this view in their analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. A determination of the assets and the obligations of a defined benefit plan can be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a

Commented [LD5]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

CONFIDENTIAL DRAFT

liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that defined benefit plan accounting in financial statements reflects the plan's accounting surplus or deficit. The plan's assets and obligations are those of the separate entity, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan. Therefore, it is also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then use its allocated portion as it unilaterally determines. This means that members and employers can use their gains at different times, as historically has been the case. The result is that the portion of the plan net asset that relates to the government's share fluctuates as a percentage of the total net asset balance. Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any time, when determining what its share of the OPSEUPP asset is.

Commented [PO6]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

Commented [LD7R6]: To discuss –Propose deletion.

CONFIDENTIAL DRAFT

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine its share of the net pension asset of OPSUEPP, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis, i.e., there is an accrued benefit asset (net of any valuation allowance – see Section [x – measurement]), each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and benefits is a basic tenet of JDBP accounting.

Ability to benefit

This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are

CONFIDENTIAL DRAFT

primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its share of the economic resource in each of the Plans and thus meet this part of the asset definition.

Consistent with PS 3250.052, a sponsor can benefit from a pension surplus in two ways:

- withdrawing the surplus, taking cash out of the plan, resulting in a cash inflow for the sponsor, or
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor.

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since OPSEUPP specifically prohibits surplus withdrawal by either of the joint

CONFIDENTIAL DRAFT

sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

Consequently, the Panel concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus or otherwise. The plan actuary may take surplus into account in determining the required level of employer contributions. The plan actuary is prohibited from doing so only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations." They are intended to provide an estimate of the most likely outcome and are not designed to measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these Plans to the extent they hold more assets than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation that they can benefit from their portion of any surplus assets to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the equitable sharing objectives that are consistent with the OTPP and OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared for the benefit of both sponsors.

An analysis of the plan documents for OTPP and OPSEUPP indicate that the sponsors fund both Plans on an equitable basis and both sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can accrue only to the joint sponsors

Commented [PO8]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [LD9R8]: To discuss with Panel Interplay with funding regulations?
MG input

Commented [PO10]: Uros – true?

Commented [LD11R10]: To discuss at Panel

CONFIDENTIAL DRAFT

and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset considerations

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset there is no uncertainty as to whether the plan exists, and therefore about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. No future events are needed to clarify whether the service was provided by the employees or whether the plan assets were contributed. Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Panel view

The accrued benefit asset meets the definition of an economic resource because it exists and future benefit is available to the sponsors in accordance with the Plan documents. There is no uncertainty regarding the existence or potential benefit of the net pension asset.

Commented [LD12]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

Commented [LD13]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

CONFIDENTIAL DRAFT

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect is that each sponsor individually has a veto right for fundamental changes to the Plan or decisions that are made under the existing Plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus and gives it control in accordance with the definition of an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. Each joint sponsor has the ability to protect its own equitable share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the assets held under joint control even though the government cannot control the use of those assets unilaterally.

CONFIDENTIAL DRAFT

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that governments could not recognize their proportionate interests in partnerships. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of the portion of a jointly controlled asset. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition, which would be inconsistent with the guidance in PS 3250 to account for a JDBP using the guidance for defined benefit plans, which includes guidance on the recognition of accrued benefit assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan as a whole, and then the sponsors sharing control group each recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial

CONFIDENTIAL DRAFT

Government's position paper]. While the form of future benefit will be determined by joint sponsors' preferences and priorities at the time of future negotiations, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past. This supports an expectation that it would be able to do so in the future, given its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for its portion of a net asset which represents a economic resource, would not faithfully represent the economic substance of a JDBP whereby the risks and benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

CONFIDENTIAL DRAFT

Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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. [PS 3250.56]

CONFIDENTIAL DRAFT

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] As previously discussed, the standard identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through reduced contributions.

As the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets. PS 3250.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, in the Panel's view it is not appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing decisions about the allocation of surplus on an equitable basis. There is no need to change the existing rights within the contractual arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to obtain an expected future benefit. Consistent with the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur,

Commented [LD14]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

CONFIDENTIAL DRAFT

for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or when there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

No such restriction exists in the OTPP. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS

CONFIDENTIAL DRAFT

unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes that, in addition to the expected future accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires minimum contributions that the government is required to make regardless of any surplus to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when there are plan surpluses on funding basis, it would be impossible for the sponsor to benefit from a reduction in contributions to the plan.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP Partners' Agreement requires any valuation filed for regulatory purposes to be "actuarially balanced", no funding surplus will exist in those valuations. Any

CONFIDENTIAL DRAFT

funding surplus in a preliminary valuation must be dealt with through the negotiation process before the final valuation is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be made by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, no funding surplus is anticipated by the OTPP. The sponsors can agree to any level of contributions as long as the result is actuarially balanced so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Commented [PO15]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD16R15]: Edits to be made/discussed

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective. In no case were the expected future benefits

CONFIDENTIAL DRAFT

determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no “minimum contributions regardless of any surplus” for OTPP beyond the next actuarial filingfor either plan.

Panel view - Measurement

In the Panel’s view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

The expected future benefits would be calculated based on the plan as a whole. In the Panel’s view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, when the present value of expected future accruals for service for the current number of active employees, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance is required. The Ontario Provincial Government Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset.

The Panel noted that determining the “minimum contributions that the government is required to make regardless of any surplus” for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [LD17]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

Commented [LD18]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say ‘this is unclear and the PSAB Taskforce should look into it”.

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB’s initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say “there is a bunch of gray areas, and this Panel has sided with the province on each single count”

To discuss at Panel.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

CONFIDENTIAL DRAFT

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

Additional clarity on what constitutes a "minimum contribution" could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms proposed to deal with potential income volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor's borrowing rate is often used for

CONFIDENTIAL DRAFT

unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different from the discount rates used in a plan's own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

Commented [LD19]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD20]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

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.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

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.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

IPSAS 39, Employee Benefits

IPSAS 39.67

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

CONFIDENTIAL DRAFT

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[DRAFT] REPORT

[NTD - o/s Cover letter? (including mandate summary) Executive Summary]

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for ~~a~~ joint defined benefit ~~plan~~plans
- 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~~Employment 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.

The Panel ~~looked at~~reviewed the arrangements relating to certain jointly sponsored pension plans (specifically, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), individually a "Plan" and collectively the "Plans~~") and~~"). It then considered whether there is a basis for recognizing a net pension asset for either or both of the Plans in accordance with Canadian public sector accounting standards (PSAS). If so, the Panel also considered how such an asset would be measured.

The recognition and measurement of pension assets arising in other pension plans, specifically the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP), will be covered in a later supplemental report that considers the distinct attributes of these jointly sponsored multi-employer plans.

CONFIDENTIAL DRAFT

Commented [LD1]: Comments to be processed:

1)Referencing – no referencing to Pension plan documents. References to accounting pronouncements included in Appendix B to be made consistent
2)Include discussion of NB and BC plans in measurement section

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All pension plans examined by the Panel are defined benefit plans.

Nature of the pension plans examined

Pension plans are not all alike. Each pension plan examined by the Panel has distinct arrangements that ~~shape~~affect how accounting guidance is applied. A detailed understanding of plan specific governance mechanisms and funding policies is essential to assessing the appropriateness of the accounting for each plan. The present contractual agreements ~~are~~were used ~~for assessing~~to assess existing rights and powers under the arrangements.

Under Ontario pension legislation (the *Ontario Pension Benefits Act* (the "Ontario PBA~~") in Ontario),~~")), there are several categories of defined benefit plans. Jointly sponsored pension plans are a separate category from single sponsor plans or multi-employer plans and have different regulatory requirements. Both Plans considered in this report are jointly sponsored pension plans~~, as~~, the Ontario Provincial Government has entered into contractual arrangements with the employee sponsor of each Plan that govern the relationship between the Plan's joint sponsors, including with respect to plan surpluses and deficiencies. The relevant legislation and contractual arrangements governing the Plans that were considered by the Panel are listed in Appendix A and key facts have been summarized below for each Plan.

Under PSAS, there are also ~~several~~similar categories of defined benefit plans, including "Joint Defined Benefit Plans" (JDBPs). In a JDBP, the government (employer) sponsor shares risks and benefits of a defined benefit plan on an equitable basis with plan participants, represented by an employee sponsor or sponsors. A key ~~characteristic~~feature of a JDBP is a formal agreement between the sponsors which establishes shared control over the plan. Other essential characteristics of JDBPs include:

- ~~o~~ Funding contributions are shared mutually between the government and plan members [PS 3250.80]
- ~~o~~ The sponsors have shared control over decisions related to the level of benefits and contributions on an ongoing basis, based on the terms of the contractual agreement as well as arrangements for the administration of the plan [PS 3250.80]
- ~~o~~ The sponsors share, on an equitable basis, the significant risks and benefits, ~~both positive and negative,~~ associated with the benefit plan~~.~~ [Based on PS 3250.82 and PS 3250.GLOSSARY]. The government does not retain the residual risks of the plan. [PS 3250.80]

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CONFIDENTIAL DRAFT

By definition, neither sponsor has unilateral control over a JDBP; shared decision making, with each sponsor having an equal voice, is an essential attribute. A fundamental difference between single sponsor ~~defined benefit plans~~ and joint sponsor defined benefit plans is that the ~~ability~~unilateral control a single sponsor has over setting contribution rates and benefits has been replaced with shared control over those decisions. In other words, plan oversight rests with two sponsors (or more) that must work together ~~instead of one sponsor.~~. The sharing of the risks and benefits of the pension plan on an equitable basis is ~~commensurate with~~a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. [REF: PS 3250.GLOSSARY]

OTPP was a single employer sponsored plan until 1992 when it was ~~converted~~changed to ~~be~~a jointly sponsored arrangement, and subsequently classified as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes. Similarly, OPSEUPP was separated out of the Public Service Pension Plan (a single sponsor plan) in 1995 and subsequently established as a jointly sponsored pension plan for regulatory purposes under the Ontario PBA and a joint defined benefit plan for accounting purposes.

The ~~motivation for making~~ Panel understands that the essence of these changes was ~~for~~that the Ontario Provincial Government ~~to transfer~~transferred a share of the risks and costs of the obligation to the members of the ~~plans~~Plans. In exchange ~~for taking on a share of the risk and cost of the obligation~~, the members received an equitable share of any surplus in ~~the plan~~their Plan (both the upside and downside of plan performance are equitably shared~~) and~~). In addition, the member Sponsors received the right to participate in shared control of ~~the plan, meaning that the arrangement contemplates~~their Plan. The arrangements contemplate ongoing discussions between the ~~sponsoring parties~~Sponsors of each Plan and joint decision-making about issues ~~decisions~~ such as plan structure, benefits available under the plan, contribution rates, funding levels and other policy decisions.

As both the funding ~~risk~~risks and rewards and the governance of the Plans are shared between the employer sponsor and the employee sponsor, the move from ~~a~~ single sponsored ~~plan~~plans to a jointly sponsored ~~plan~~plans was considered ~~by all parties~~ to be a fair and equitable arrangement ~~for both sides~~by all parties.

OTPP – Structure and organization

Sponsors

The OTPP is a jointly sponsored pension plan.

Commented [LD2]: MG's comments: Note that the definition of 'jointly sponsored pension plan' was only added to the PBA in 2005. Prior to 2005, the OTPP functioned as a JSPP, but continued to be underpinned by the rules applicable to single employer pension plans.

My response: Edited try to capture this nuance. To discuss at Panel

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The joint sponsors are the Ontario Provincial Government (represented by the Minister of Education and Training) as the employer Sponsor and the Ontario Teachers' Federation (represented by its Executive) as the employee Sponsor. The Partners' Agreement between the joint sponsors sets out how shared control is achieved and governs all aspects of the plan.

Other employers also participate in the plan, such that the OTPP is also a multi-employer plan, but these employers are not sponsors~~.~~ and do not participate in decision-making.

Decision making

The OTPP Board is appointed by the joint sponsors and is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board does not make any fundamental decisions regarding benefits and contributions as these decisions rest with the joint sponsors' ~~Partners~~Partners' Committee, to which an equal number of representatives ~~are~~is appointed by each sponsor.

Funding arrangements

A basic funding provision, set out in the Teachers' Pension Act, is that the employers' contributions for the current year must not exceed those made by the members in the year before the preceding year.

Historically, the Employers have matched the members' contributions, based on the members' contributions in the year before the previous year. This has resulted in contributions being made ~~typically~~ on ~~a~~an approximate 50~~:~~/50 basis between employers and members (except ~~where~~when specifically agreed otherwise).

~~A~~Currently, a limited exception to the matching contribution provisions ~~also~~nevertheless reflects the sharing principle underlying the OTPP~~. In~~; in the event that OTPP does not pay conditional indexation benefits ~~are not paid by the OTPP~~ in a year, the amount of ~~this~~that benefit reduction is matched by a ~~corresponding~~ contribution from OTPP employers~~,~~ known as "share the pain" contributions.

The contractual arrangements require an actuarial valuation for funding purposes to be ~~prepared~~filed at least once every three years to comply with the Ontario PBA. This actuarial valuation must be "actuarially balanced" ~~which means~~ that is, the benefits and costs to be paid from the fund plus any contingency reserve must equal the value of the plan assets, ~~including~~plus the present value of the members' and employers' future contributions ~~plus~~and any special payments. Procedurally, the triennial valuation process commences with a preliminary valuation prepared by the Board's actuary based

CONFIDENTIAL DRAFT

on the existing terms of the plan. To the extent that this preliminary valuation is not actuarially balanced ~~as defined above~~, the joint sponsors must negotiate and agree on what changes to the plan ~~must~~will be made in order to reach an actuarially balanced valuation ~~that will subsequently~~to be filed. This process means there is no funding surplus or deficit in the final funding valuation that is filed to comply with the Ontario PBA.

The joint sponsors ~~could~~can agree to Plan changes ~~to the Plan to~~that increase or decrease contributions for employers and/or members or to improve benefits payable to members or keep a contingency reserve in the Plan. Negotiations must be carried on in good faith and if an agreement is not reached within a certain time frame a mediator may be appointed by the joint sponsors, and, if necessary ~~a board of~~the issue goes to binding arbitration. However, under the Partners' Agreement, ~~agreement~~a decision must be reached on how to actuarially balance the required funding valuation. The "status quo" could not be maintained if it resulted in filing an ~~imbalance between the promised benefits and~~ actuarial valuation with a funding deficit or surplus in excess of any agreed upon contingency reserve ~~and the plan assets, including the value of future contributions.~~.

The joint sponsors have ~~agreed to~~implemented a Funding Management Policy (FMP) ~~to supplement~~as part of the Partners' Agreement, which sets ~~a~~out an agreed upon framework of priorities for the sponsors to use in jointly determining the use of any funding surpluses or the funding of deficits. The FMP, in combination with the *Income Tax Act (Canada),* requires ~~that once the OTPP meets certain funding thresholds,~~ the Partners ~~must~~to negotiate either to lower contributions or provide temporary or permanent benefit enhancements (or some combination of the two~~).~~) once the OTPP meets certain funding thresholds. By mutually agreeing the funding thresholds in the FMP and the actions to be taken at each threshold, the Partners have agreed in principle as to when ~~changing~~ benefits or contributions will be ~~taken~~changed as opposed to using or creating contingency reserves. For example, at the current level of surplus, priority is intended to be given to restoring the conditional indexation benefits that were reduced in the financial downturn. After that, the next priority is to reduce member and employer contributions from the current 11.1% level to the normal "run rate" of 10%. However the FMP does not specify whether or when contributions, benefits or both would be adjusted. This would be subject to the negotiations by the partners ~~and must be on an equitable basis (consistent with the definition of a JDBP).~~.

Neither the OTPP plan text nor the FMP limits the outcomes of the negotiation between the joint sponsors. ~~There is~~Contribution levels can be negotiated with no minimum level or fixed range of contributions by members or employers that ~~cannot~~must be ~~changed through~~adhered to in the ~~negotiations~~negotiating process.

Commented [LD3]: A number of comments on this sentence. To discuss revised sentence with Panel and what "contingency reserves" mean.
MG's input requested

CONFIDENTIAL DRAFT

OPSEUPP – Structure and organization

Sponsors

The OPSEUPP is a jointly sponsored pension plan.

The joint sponsors are the Ontario Provincial Government (represented by the Chair of the Management Board of Cabinet) as the employer Sponsor and the Ontario Public Service Employees' Union (OPSEU) as the employee Sponsor. The joint sponsors established a trust (OPTrust) and the declaration of trust between the joint sponsors and the trustees of OPTrust sets out how shared control is achieved and governs all aspects of the plan.

Decision making

The Board of Trustees administers the plan and an equal number of trustees ~~are~~is appointed by each of the Ontario Provincial Government and OPSEU.

The Board of Trustees makes decisions by majority vote. This means that at least one ~~Trustees~~Trustee representing each of the Ontario Provincial Government and OPSEU must agree to a resolution in order for it to be adopted. In the case of a deadlock there are agreed upon procedures to appoint a temporary 11th trustee, ~~as~~ agreed to by both the sponsors (or, if necessary, appointed by the Chief Justice of Ontario).

The Board of Trustees is responsible for the administration of the OPSEUPP and the investment of the ~~OPSEU Pension Fund.~~assets of the OPTrust. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

The Board of Trustees has no power to amend the ~~plan~~Plan or the trust agreement. All decisions regarding contribution levels and benefits to be provided under the ~~plan~~Plan, including those made to comply with the Ontario PBA minimum funding rules are the responsibility of the ~~sponsors~~Sponsors.

Amendments to the trust agreement, plan text and sponsorship agreement require unanimous written consent of the ~~sponsors~~Sponsors.

Funding arrangements

The basic contribution requirement under the OPSEUPP text is that employers match the contributions of the members, subject to a two month lag. [s.4.6 of OPTrust Plan Text]

The Board of Trustees, and the Plan actuary, are responsible for the Plan's actuarial valuations and the actuarial assumptions used in those valuations. While valuations must be filed with the pension regulator every three years under the Ontario PBA, the Board of Trustees may elect to file a valuation more frequently [s1.3 of OPTrust Funding Policy].

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In the event that a funding valuation discloses net actuarial gains (i.e., a surplus) after non-defrayed obligations have been met, ~~those net actuarial gains are~~that surplus is equally divided between an Employer 'Rate Stabilization Fund' (RSF) and a Member RSF [s.56(c) and s.57 of OPTrust Sponsorship Agreement]. ~~Through collective bargaining, an~~An allocation of funding surpluses ~~on a basis that is~~ different from a 50/50 basis may be agreed~~.~~ upon through collective bargaining. The Panel ~~understand~~understands that currently ~~no different basis of allocating~~ funding surpluses ~~has been agreed~~are allocated on a 50/50 basis. The Ontario Provincial Government may retain its RSF as a reserve or use the Employer RSF to reduce its special payments or its normal ~~costs and~~contributions. Similarly, OPSEU may retain its RSF as a reserve or utilize its RSF in its discretion~~,~~. Both Sponsors' decisions are subject only to the provisions of the Ontario PBA and the *Income Tax Act (Canada)*. The OPTrust Board of Trustees has no authority with respect to the use or application of either RSF, but has recommended to OPTrust's ~~sponsors~~Sponsors that each RSF not exceed 12.5% of net actuarial liabilities [5.2 of OPTrust Funding Policy]. ~~There are no restrictions on how each party bargains the~~Each party's use of ~~their~~its surplus~~. There~~ is ~~no~~unrestricted. No minimum level or fixed range of contributions by members or employers is specified that cannot be changed by agreement of the joint sponsors or through the use of their respective ~~surplus portions~~RSFs.

In the event of a funding deficiency, member and employer contributions are increased equally to fund the deficiency [s.58 of OPTrust Sponsorship Agreement]. The only exception is in the event that either of the joint sponsors has an RSF and chooses to apply it to offset its share of a funding deficiency. In principle, with a sufficient RSF, either OPSEU or the Ontario Provincial Government could reduce ~~their~~its contributions to zero, without requiring any consent from the other joint sponsor.

The plan text [s.6.4] clearly states that no amount of surplus shall be paid out of the plan to the Ontario Provincial Government or any participating employer. Contribution holidays, however, are explicitly not ~~treated as~~considered a surplus withdrawal, and are clearly permissible under the OPTrust Sponsorship Agreement and Plan Text.

Panel view

Both OTPP and OPSEUPP have been accounted for as joint defined benefit plans in the Public Accounts of Ontario accordance with PS 3250, *Retirement benefits* since that standard was issued in 2001. The Auditor General ~~(AG)~~ also agrees with this classification of both plans.

The Panel agrees with the accounting classification of both plans as joint defined benefit plans.

Commented [LD4]: To confirm this is the same thing To discuss at Panel – **MG?** Uros?

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CONFIDENTIAL DRAFT

Determination of relevant accounting guidance and assessing accounting policies applied to pension plans

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The relevant accounting framework used as the basis for analysis is ~~performed in accordance with~~ Public Sector Accounting Standards (PSAS) issued by the Canadian Public Sector Accounting Board (PSAB). PSAB was created to establish accounting standards specifically tailored for the public sector in Canada.

PSAS identifies sources of guidance to be used in determining appropriate accounting policies in PS 1150, *Generally Accepted Accounting Principles*. First, a government ~~must follow~~follows any specific standard that relates to the issue under consideration, that is, ~~to apply~~it applies every primary source of Generally Accepted Accounting Principles (GAAP). In this case, PS 3250, *Retirement benefits* (PS 3250) is a standard that specifically addresses the accounting for defined benefit pension plans. Further, PS- 3250 also defines and contains specific guidance on accounting for joint defined benefit plans.

If the concepts of PS 1000 *Financial Statement Concepts* (PS 1000) are found to conflict with a primary source of GAAP, the primary source of GAAP prevails [PS- 1150.12]. If a primary source of GAAP may be interpreted in more than one way, the government selects the treatment that is most consistent with the principles of the primary source of GAAP [PS 1150.14].

If a primary source of GAAP, such as PS 3250, is not clear, the government develops an accounting policy considering other standards within PSAS and PS 1000. Recently PSAB has undertaken a project to review and update its conceptual framework in PS 1000. While this project is on-going, PSAB has issued a number of standards to expand on and clarify the guidance provided in PS 1000 on Assets, Contingent Assets and Contractual Rights. These standards are not mandatorily effective until April 2017, but early adoption is permitted ~~and as such~~. Consequently, they are currently valid sources of reference as they ~~were developed to be~~are consistent with PS 1000 and are intended to assist governments in applying the standards.

A government may also refer to accounting guidance in other GAAP frameworks as long as those frameworks are consistent with PSAS standards and PS 1000 above. PS- 1150 identifies the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), and International Public Sector Accounting Standards Board (IPSASB) amongst others, as important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. [PS 1150.19]. In addition, PS 1000 states that the objectives of government financial statements are a significant factor in the selection of accounting policies used in government financial reporting [PS 1000.13]. The objectives of government financial statements are set out in PS 1100, *Financial Statement*

CONFIDENTIAL DRAFT

Objectives and are ~~consistent with PS 1000 concepts. They are~~ therefore a relevant source of guidance when determining appropriate accounting policies.

In ~~considering~~addition to guidance found in PS 3250, a primary sources of GAAP, relating to the recognition and measurement issues addressed in this report, the Panel considered ~~both~~ the concepts in PS 1000 ~~and~~, the objectives of financial statements in PS 1150~~, as well as~~ and relevant guidance issued by other standard setters~~, and~~,. The Panel was particularly ~~were~~ guided by the following principles and objectives:

➢ Financial statements are prepared to provide useful information

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Financial reporting is not an end in itself. Its purpose is to communicate useful information to users of general purpose financial statements (GPFSs). Governments are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

The objectives of financial reporting by governments are, therefore, to provide information about the government that is useful for accountability purposes and for decision-making purposes. Among other things, users of the GPFSs of governments need information to support assessments of the resources currently available to support present activities, meet liabilities and contractual obligations and for future expenditures to support service delivery activities, and to what extent there are restrictions or conditions attached to their use.

➢ What qualities make financial statement information useful?

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The most important qualities that make information useful to users are relevance and faithful representation. For it to be useful, the information must be relevant to the decisions made by users and for assessing accountability. That is, ~~it~~the information has the potential to make a difference to those decisions and assessments.

Accounting uses the term “faithful representation” to mean that the information provides an authentic or realistic portrayal of the economic phenomena it says it portrays. For this to be the case, the transactions and other events reflected in the financial statements must be accounted for, presented and described in accordance with their substance and economic reality ~~at the time they are included in those statements~~.

Thus, when a potential accounting treatment is being evaluated, it is assessed in large part by considering whether it will produce information that is relevant and that provides a realistic picture of the government. This requires financial statements that show clearly the government’s assets and liabilities, income and expenses.

CONFIDENTIAL DRAFT

An important component of faithful representation is neutrality. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the ~~entity~~government would be incomplete and, therefore, potentially biased.

Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFSs to be neutral does not mean that ~~it~~the information is without purpose or that it will not influence ~~behavior~~behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- **What ~~place~~does "conservatism~~?~~" mean and how should it be applied?**

PS 1000 describes conservatism this way:

> Conservatism
> The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

A similar discussion of the same concept, labelled "prudence", was included in the pre-2010 conceptual framework of the IASB. In finalizing the ~~new~~2010 version of its Framework ~~in 2010~~, the confusion caused by the ambiguity of that discussion prompted the IASB to remove any reference to prudence and to describe in other ways the desirable characteristics of good quality financial reporting. However, after much comment and debate, in its most recent Exposure Draft (ED) of changes to its conceptual framework, the IASB proposed re-introducing an explicit reference to "prudence". The Basis for Conclusions to that ED provides the following rationale for that proposal:

> The IASB noted that prudence is a term used by different people to mean different things. In particular:
>
> (a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence').
>
> (b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:
>
> (i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

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CONFIDENTIAL DRAFT

(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses.

Some argue that asymmetric prudence is a necessary characteristic of useful financial information. The IASB disagrees with this view.

In the ED and its subsequent consideration of comments received, the IASB has concluded that only "cautious prudence" is consistent with neutrality, and therefore with faithful representation of financial information. PSAB's 2015 consultation paper on *Conceptual Framework Fundamentals and the Reporting Model* is consistent with the conclusions of the IASB:

Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.

This view of applying a "cautious" conservatism in respect of estimation uncertainty rather than as a rationale for ~~asymmetrical~~asymmetric recognition or measurement of assets or liabilities is consistent with the current definition of conservatism in PS 1000, and represents the latest thinking of standard setters in a number of jurisdictions, including Canada.

Part of the rationale for standard setters' rejection of asymmetric conservatism, or prudence, is the recognition that conservatism applied in one period inevitably results in its opposite in subsequent periods. Conservatively understated assets/revenue or overstated liabilities/expenses in one period will result in overstated income in a future period when actual experience is more favourable than the conservative estimate. Thus, asymmetric conservatism/prudence means that both financial position and financial performance are mispresented in multiple periods. In the private sector, such tactics are sometimes referred to as "cookie jar reserves," used by companies to manage their results over time to improve users' perception of their performance.

➢ What is the definition of an asset under PSAS

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Faithful representation and the need for useful information ~~entails~~demands that only items ~~that meet~~meeting the definition of an asset under PSAS should be recognized in the financial statements.

CONFIDENTIAL DRAFT

As defined in PS 1000 and PS 3210, *Assets*, assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets may be financial resources or non-financial resources. Assets have three essential characteristics:

(a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;

(b) the public sector entity can control the economic resource and access to the future economic benefits; and

(c) the transaction or event giving rise to the public sector entity's control has already occurred. [PS 1000.35-.36]

For an asset to exist a government must control the future economic benefit associated with the asset to the extent that it can benefit from the asset and generally can deny or regulate access to that benefit by others. ~~This guidance was expanded by PS 3210, a standard that is effective from April 1, 2017, which clarifies that a government controls an economic resource and access to its future benefits when it can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows, deny or regulate access to those benefits by others, and is exposed to the risks associated with the economic resource. [PS 3210.16, related archived pronouncement PS 1000.38]~~

PS 3210, *Assets,* repeats this definition and expands on the guidance provided by PS 1000.

International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, issued in 2016, explains how the basic definition of an asset is met for a net pension asset. Although it does not apply this definition to a JDBP, it provides a helpful perspective on how to ~~assess~~apply the conceptual definition of an asset, including control, economic benefit and risk concepts to ~~that of~~ a pension asset which typically exists in a separate vehicle~~, a trust,~~ from the sponsors. IPSAS 39.67 notes that~~:~~:

- an asset exists when a plan has been overfunded or ~~where~~when actuarial gains have arisen (i.e. when there is a surplus for accounting purposes~~), and that~~
- an asset arises because the entity controls a resource - the resource being the surplus that generates future benefits and the control being the ability to use the resource. In addition, future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund~~, either directly to the entity or indirectly to another plan in deficit.~~. The asset ceiling is the present value of those future benefits.

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- Control is ~~as~~ a result of past events (contributions paid by the entity and service rendered by the employee). [Taken from IPSAS 39.67 – actual wording in appendix B]

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The economic resource in question is the accrued benefit asset that arises from applying the accounting guidance in measuring plan assets and the accrued benefit obligation, including the provisions regarding the deferral of unamortized gains or losses. ~~The~~This accounting accrued benefit asset may be very different from any surplus calculated under an actuarial valuation performed for funding purposes. Funding valuations can use different actuarial methods and assumptions, and additional provisions for risk such as ~~a provision~~provisions for adverse deviations. However, under accounting standards, any surplus represents the difference between the best estimate of the accrued benefit obligation and the fair value of the plan assets, as adjusted for the permitted deferral provisions. PS 3250 – the primary source of GAAP for retirement benefit plans – clearly requires an accrued benefit asset to be recognized for a defined benefit pension plan regardless of whether there is a surplus ~~calculated for~~determined by a funding valuation and notwithstanding the delayed recognition of actuarial gains and losses ~~due to the deferral provisions~~ and the measurement uncertainty ~~regarding~~inherent in both the measurement of the plan assets and the accrued benefit obligation.

PS 1000 also provides the following ~~recognition~~ criteria for recognizing assets in the financial statements:

a) ~~That the item~~it has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) ~~For an items that involved obtaining or giving up future economic benefits,~~ it is expected that such benefits will be obtained or given up. [PS 1000.55]

This second ~~criteria~~criterion requires ~~that~~ future economic benefits ~~are~~to be *expected* ~~but do~~ not that they need to be certain. PS 1000 states that:

> "Expected" is used with its usual general meaning an refers to that which can ~~be~~ reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty" [PS 1000.56]

An item must first meet the definition of an asset (or other element) under PS 1000, then in addition both recognition criteria must be met.

PS 3250 ~~provides an~~specifies the appropriate basis of measurement for a net pension asset. Additionally, PS 3250 also ~~requires~~assists a net pension asset to meet the general recognition ~~criteria~~criterion, by defining what are *expected future benefits* in the context of defined benefit pension plans [PS 3250.GLOSSARY].

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Panel ~~View~~Analysis

The Panel considered the guidance in PS 3250 and how it applies to the recognition and measurement of government's share of the Plans when they are in an accrued benefit asset position for accounting purposes. In its analysis the Panel considered whether the contractual arrangements and other circumstances regarding the government's share of an accounting surplus in the Plans met the definition of an asset and whether the resulting accounting meets the financial statement objectives of PSAS.

The Panel's analysis is presented in the following sections on Recognition Issues and Measurement Issues.

Recognition issues

1) Application of Defined Benefit accounting to Joint Defined Benefit Plans

PS 3250 ~~Paragraph~~ 81 states "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".

The Panel discussed two possible interpretations of how this guidance is to be applied to JDBPs:

- Interpretation A) Divide the plan between the sponsors' respective portions; the government applies the guidance on defined benefit plans in PS 3250 only to its portion;
- Interpretation B) The government applies the defined benefit plan guidance in PS 3250 to the plan as a whole; then recognizes only its portion of the plan in its financial statements

This is ~~a critical~~an important interpretation in assessing both the asset recognition guidance in PSAS and the perspective through which the guidance on defined benefit plans in PS 3250 is applied.

For example, under interpretation A, dividing the plan first would entail measuring plan assets at the government's share, determining the accrued benefit obligation at the government's share and then ~~applying the~~ determining whether any valuation allowance ~~to~~is required for any net accrued benefit asset that arises. Both the Ontario Provincial

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Government and ~~AG~~Auditor General seem to implicitly adopt this view in their ~~analysis~~analyses.

Conversely, under interpretation B, the plan assets and accrued benefit obligation amounts for the whole plan are measured in accordance with PS 3250. The valuation allowance guidance is applied to any accrued benefit asset that arises on the plan as a whole. The government then calculates its portion of the accrued benefit asset, net of any valuation allowance in determining the amount of asset to recognize in the Public Accounts.

In its analysis, the Panel noted that the contractual arrangements between the Sponsors affect the plan as a whole because there is joint control over the plan as a whole and not unilateral control by each sponsor over its portion of the plan. ~~As noted in section [x] above this is an inherent characteristic of a JDBP. For example, there is one funding policy, one Partners' agreement (OTPP) or sponsorship agreement (OPSEUPP), one plan text and so on, that govern the respective plans. Members' service and earnings are also measured as a whole, and not split between different sponsors.~~ A determination of the assets and the obligations of a defined benefit plan can ~~only~~ be made only with reference to the plan as a whole. To apply the guidance on the Limit on the Carrying amount of an Accrued Benefit Asset (the "~~Limit guidance~~Asset Ceiling Test") to the government's share of the plan, while applying the guidance on determining the accrued benefit obligation and the measurement of plan assets to the plan as a whole would not be a consistent approach. ~~The Panel believes that if the PSAB had intended joint defined benefit plans to apply the valuation allowance guidance for defined benefit plan accounting to the government's portion of the plan only they would have specified this and provided additional guidance as to how this should be applied in this context.~~As PSAB did not provide explicit guidance on the application of the Asset Ceiling Test to a Joint Sponsor's portion of a pension plan it is reasonable to apply the Asset Ceiling Test in the same manner as other guidance in PS 3250 on the measurement of plan assets and accrued benefit obligation; that is to apply the guidance in the standard prior to determining the government's portion of the plan.

An important characteristic of JDBPs is that there is an equitable sharing of the plan which applies to both risks and rewards and is the underlying economic rationale for a JDBP. One of the implications of Interpretation A is that the sponsors might recognize a liability for their portion of a net liability but be unable to recognize an asset for their portion of a net asset. It would not be an equitable sharing for a sponsor to have only an obligation for a net liability without any access to a net asset position. In fact such a plan might not meet the definition of a JDBP as such a position would indicate that either residual risk rests only with one sponsor and not the other, or that neither sponsor can access the economic resources held within the plan, which would not faithfully represent the underlying risks and rewards of the arrangement which are intended to be shared

Commented [LD5]: MG comment:
Note that OPTrust does provide for unilateral control by a Sponsor over its part of the plan.

Response: To discuss edits at Panel– Not sure that it is unilateral control over it's portion of the plan, but rather specific control over the use of its RSF, as opposed to the broader plan decision.

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on an equitable basis. The fundamental difference between a single sponsor plan and a joint defined benefit plan is that for the latter, control is shared and a sponsor has only a portion of the positive or negative risks. It would be logical and consistent with the objectives of financial reporting to calculate the plan net asset or net liability in the same manner as for single sponsor plan – on a whole plan basis – before accounting for the shared control distinction by determining what is the government's portion that net asset or net liability.

The Panel also noted that ~~generally~~ defined benefit plan accounting in financial statements ~~is based on a *net* amount of plan~~reflects the plan's accounting surplus or deficit. The plan's assets ~~less accrued benefit~~ and obligations~~. Rather than presenting plan assets as "Assets" of the sponsor and plan liabilities as "Liabilities"~~ are those of the ~~sponsor, these are presented as a net asset or liability, which reflects that the plan is a~~ separate entity~~.~~, the plan, not those of the sponsor. The sponsor is responsible for, or entitled to, only its share of the net result of the plan. This accounting is ~~more~~ similar to an "equity method" of accounting which reflects the sponsor's interest in the net assets (or net liability) of a plan ~~than to a proportionate consolidation accounting.~~. Therefore, it is ~~therefore~~ also conceptually consistent to calculate the net assets (or liabilities) in the plan in accordance with accounting standards before determining a sponsor's portion of the plan.

Application to OTPP and ~~OPSEPP~~OPSEUPP

In respect of OTPP, the Partner's Agreement and the Plan Text set out the entitlement to gains or surplus under the plan (benefits) and the liability for deficiencies in the pension fund (risks) are shared between employers and active members, consistent with the *Teachers' Pension Act* [TPA 10 (1)]. This has historically been 50:50 when considered over the long term.

The OPSEUPP plan indicates that any actuarial gains are allocated between the employers and members on a 50:50 basis. Each sponsor can then ~~utilize~~use its allocated portion as it unilaterally determines. This means that members and employers ~~could utilize~~can use their gains at different times, as historically has been the case ~~resulting in~~. The result is that the portion of the plan net asset that relates to the government's share ~~fluctuating~~fluctuates as a percentage of the total net asset balance. ~~As a result~~Consequently, the Ontario Provincial Government may not have an exact 50% portion of the net pension asset at any ~~one~~ time, when determining what ~~their~~its share of the OPSEUPP asset is.

Panel View

The Panel believes it is appropriate to apply all aspects of the guidance for accounting for defined benefit plans in PS 3250 to a JDBP prior to determining the government's

Commented [PO6]: I have no idea what this is trying to say. I don't understand how A could result in recognizing liabilities but not assets unless there were different contribution levels by the sponsors. I did not think that the difference between A and B would generally be significant, and you might actually have to use A when each sponsor got its own pot of surplus to do what it liked wit as in OPSUEPP. I think we agreed that there you would have to make adjustment for the different proportionate use of the surplus.
If this discussion is important and needs to stay, it needs to be a lot clearer.

Commented [LD7R6]: To discuss –Propose deletion.

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portion of that plan for recognition in the financial statements. This results in financial reporting for a JDBP that aligns most closely with the concepts of defined benefit accounting in PS 3250 and with the economic substance of joint defined benefit plan arrangements.

The Panel noted that the existence of different interpretations of PS 3250.81 suggests that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

The Panel recommends that the Ontario Provincial Government monitor the use of its rate stabilization reserve to determine ~~what~~ its share of the net pension asset of OPSUEPP ~~is~~, as this could fluctuate over time.

2) Definition of an asset – Is there an economic resource that the Ontario Provincial Government can benefit from?

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As noted in Section [X], an accrued benefit asset (i.e. an accounting surplus in a pension plan) is an economic resource ~~of~~that exists in the pension plan. For the Plans, the question is whether the accrued benefit asset is an economic resource ~~to~~of the Ontario Provincial Government. In other words, does the Ontario Provincial Government have the ability to benefit from the economic resource? The question of control of that ability is discussed in Section [x] below.

Economic resource

Consistent with the discussion in Section [x – application to JDBPs] above, a joint sponsor accounts for its portion of an accrued benefit asset in its financial statements. If application of PS 3250 to the plan as a whole results in an economic resource existing on an accounting basis ~~(~~, i.e., there is an accrued benefit asset~~,~~ (net of any valuation allowance – see Section [x – measurement]), ~~then a~~each joint sponsor should recognize its share of that resource under JDBP accounting. The plan arrangement would indicate what portion is the government's share and what is the employee sponsor share, but the economic resource must be equitably portioned between the two sponsors, as equitable sharing of risks and ~~rewards~~benefits is a basic tenet of JDBP accounting.

~~Notwithstanding that the above~~Ability to benefit

This position is the result of applying PS 3250.81 to an accrued benefit asset recognized in accordance with PS 3250.017 and PS 3250.GLOSSARY, which are primary sources of GAAP, and would not appear to require further consideration. However, the Panel also considered whether the ~~plan~~Plan arrangements result in the Ontario Provincial Government, as a joint sponsor, having an ability to benefit from its

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share of the economic resource in each of the Plans and thus ~~meeting~~meet this part of the asset definition ~~of an asset~~.

Consistent with PS 3250.052, ~~there are two ways that~~ a sponsor can benefit from a pension surplus ~~withdrawal of~~in two ways:

- withdrawing the surplus ~~which involves~~, taking cash out of the plan ~~(~~, resulting in a cash inflow for the sponsor~~),~~, or ~~contribution holidays, which involves~~
- reducing future contributions that would otherwise be payable for future employee service (a contribution holiday), resulting in a reduction of cash outflows for the sponsor~~).~~ .

In both cases, the cash received from withdrawal or saved by reducing contributions is unrestricted and can be used to settle other obligations of the Ontario Provincial Government or to fund the provision of goods and services, thereby meeting the definition of future economic benefits.

There is considerable case law in Canada addressing single sponsor plans and the ability of that sponsor ~~to~~ either to withdraw surplus from the plan or take contribution holidays. Critical to assessing the ability of the sponsor to withdraw surplus or take contribution holidays are the plan trust agreement and plan text~~; clear~~. Clear rights within the plan documents can support the sponsor's right to withdraw surplus or take contribution holidays. However, the law treats surplus withdrawals on a very different basis from contribution holidays.

Surplus withdrawals are highly regulated by the Ontario PBA, and are regulated differently depending upon whether a surplus withdrawal is being considered from a continuing plan or on plan wind-up. A threshold question in any case of withdrawal is legal entitlement or 'ownership' of surplus, and it is often the case that entitlement is not clear, and that neither the employer nor the plan members have an incontrovertible claim to a plan surplus. In Ontario, all surplus withdrawals are subject to the review and consent of the Superintendent of Financial Services. In addition, either legal entitlement to the surplus must be established or there must be an agreement between the employer, active members and retired members about the surplus withdrawal. Arbitration procedures may also be utilized in some jurisdictions to determine an allocation of surplus.

Under applicable case law and the Ontario PBA, it is generally considered that a sponsor does not have a legal right to withdraw a surplus until these hurdles have been passed. Since ~~OPSEU~~OPSEUPP specifically prohibits surplus withdrawal by either of the joint sponsors, and OTPP is silent on the issue of surplus withdrawal, the joint sponsors cannot avail themselves of any surplus through withdrawal (jointly or separately).

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~~Based on the above considerations~~Consequently, the Panel ~~determined~~concluded that the Ontario Provincial Government, as joint sponsor, does not have any ability to access the net pension asset through surplus withdrawals. This is consistent with the interpretation of the Ontario Provincial Government and the Auditor General.

Conversely, the Ontario PBA expressly permits contribution holidays without any requirement for Superintendent review or approval. Although certain plan provisions have been found to prohibit contribution holidays, this is the exception rather than the rule and contribution holidays are commonly taken by sponsors of Canadian defined benefit plans. In general, a plan text need not expressly permit a contribution holiday in order for a plan sponsor to reduce its contribution on account of a funding surplus~~. It is generally the case that the~~ or otherwise. The plan actuary may take surplus into account in determining the required level of employer contributions~~; the~~. The plan actuary is ~~only~~ prohibited from doing so ~~where~~only when express plan provisions or employer commitments require employer contributions regardless of any plan surplus.

The accounting asset arises in part because OTPP and OPSEUPP are conservatively ~~funded~~managed in order to protect the Plan's funded status in cases of poor performance and to maintain contribution and benefit stability for members and employers regardless of economic conditions. ~~As~~Also, as noted in Section [x – accounting guidance] accounting valuations are "best estimate valuations~~" and .~~" They are intended to provide an estimate of the most likely outcome and are not designed to ~~be overly conservative as this would not result in a faithful representation of the asset or liability of~~measure and provide for the various risks inherent in the Plans. In such circumstances, an accounting surplus greater than a funding one for the same plan is to be expected.

As a joint sponsor, it is reasonable for the Ontario Provincial Government (and Ontario taxpayers) to expect that fewer contributions will be needed to be made into these ~~plans~~Plans to the extent ~~there are~~they hold more assets ~~that~~than are required to pay the anticipated benefit obligations. Teachers/OPSEU members would also have a similar expectation ~~on their side~~ that they can ~~access~~benefit from their portion of any surplus assets~~.~~ to improve benefits or reduce their own contributions. In fact it would be unreasonable to assume that neither ~~joint~~ sponsor has the ability to access the surplus, given they are joint sponsors of the plan. It would be similarly unreasonable to assume that one sponsor can access the surplus to a greater extent than the other sponsor, as this would be against the ~~principles of a JDBP and the~~ equitable sharing objectives that are consistent with the OTPP and ~~OPSEU~~OPSEUPP plan arrangements. Rather, the economic reality of a JDBP is that an economic resource exists and is shared ~~by both sponsors~~ for the benefit of both sponsors.

An analysis of the plan documents for OTPP and ~~OPSEU~~OPSEUPP indicate that ~~in both plans~~ the sponsors fund ~~the plans~~both Plans on an equitable basis and ~~therefore~~

Commented [PO8]: Is this true? Can they reduce contributions even if there isn't a surplus?

Commented [LD9R8]: To discuss with Panel Interplay with funding regulations?
MG input

Commented [PO10]: Uros – true?

Commented [LD11R10]: To discuss at Panel

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both ~~joint~~ sponsors can benefit from a reduction in contribution rates. The benefit of the plan asset can ~~only~~ accrue only to the joint sponsors and no other third party, and the definition of a JDBP means that these benefits must be shared on an equitable basis - they will not accrue to only ~~to~~ one of the joint sponsors. As such, it is clear that the Ontario Provincial Government has an ability to access the future benefits through contribution reductions. The question of whether the Ontario Provincial Government controls its ability to access these future benefits is discussed in Section [X – recognition 3] below.

Contingent asset considerations

The Panel considered whether PS 3320, *Contingent Assets* would apply. Contingent assets are defined as "possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset". A contingent asset is not recognized in financial statements because there is uncertainty as to whether an asset exists.

An accrued benefit asset is not an uncertain economic resource. While there is uncertainty regarding the measurement of an accrued benefit asset ~~due to the necessity of making actuarial assumptions regarding demographic and financial factors as well as fair values of plan assets,~~ there is no uncertainty as to whether the plan exists, and therefore ~~over~~about the underlying existence of any estimated accrued benefit asset as an economic resource. PS 3320 notes that "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset". The extent of the economic resource becomes clear as measurement uncertainty is resolved, not as future events occur or fail to occur. For clarity, while actuarial assumptions may be revised as more information arises in respect of the cost of the services provided by employees, this is a resolution of the measurement uncertainty inherent in the estimation of services provided. ~~There are no~~No future events are needed to clarify whether the service was provided by the employees or ~~not or~~ whether the plan assets were contributed ~~or not.~~ . Similarly, there are no future events needed to clarify whether the plan sponsors jointly can benefit from any surplus assets in the plan.

As such, PS 3320 is not a relevant source of guidance in considering whether the Ontario Provincial Government can recognize an asset in respect of an accrued benefit asset in a JDBP plan.

Commented [LD12]: Paul's comment:
Are the plan assets allowed to be used to increase benefits? Not sure this is the joint sponsors are the only ones that can benefit.

My response:
An increase in benefit accrued to members, who are represented by the Member sponsor. Thus effectively benefit increases accrue to that Sponsor, as opposed to a third party.

If ALL the surplus was used to benefit the Members (i.e. the member sponsor) this would not be an equitable sharing. Thus it would not be in the spirit of JDBP to assume that the surplus would go only to increase benefits to Members.

Commented [LD13]: Addition is Uros' suggestion.

Is this required

Suggestion also included "via future contribution reductions" at the end, but is this too specific?

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Panel view

The ~~accounting~~accrued benefit asset meets the definition of an economic resource because ~~the accrued benefit asset~~ it exists and future benefit is available to the sponsors in accordance with the ~~plan~~Plan documents. There is no ~~existence~~ uncertainty regarding the existence or potential benefit of the net pension asset.

3) Definition of an asset - Control

As noted in Section [x – determination of appropriate accounting principles], a government must control an economic resource ~~must be controlled by a government~~ for it to meet the definition of an asset. The Ontario Provincial Government exercises shared control as a joint sponsor for OTPP and OPSEUPP ~~which can still meet this definition because the Ontario Provincial Government is exposed to the risk of plan surplus changing from a variation in actuarial assumptions or emerging plan experience, can benefit from the economic resource (as discussed in Section [x above] and can deny the other sponsor access to the resource to the extent that joint decisions must be made regarding the administration of the plan~~. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with ~~and any~~. Any changes to the contractual arrangements must be agreed to by both joint sponsors. The effect ~~of this~~ is that each sponsor individually has a veto right for fundamental changes to the Plan or ~~shared~~ decisions that are made under the existing Plan arrangements. ~~This shared control relationship contrasts with participating employers that are not part of the control group, as those employers are not able to regulate or~~As a result, each sponsor can deny the other sponsor access to ~~the~~a plan ~~assets~~surplus and ~~therefore cannot~~gives it control ~~access to~~in accordance with the ~~economic resource~~definition of ~~a net plan~~an asset in PS 3210.

By definition, a joint sponsor of a JDBP cannot have unilateral control or unilateral rights to the surplus of a JDBP. Instead there is an agreed upon, pre-determined process. That process provides certainty that a conclusion on the use of any surplus will be reached with the expectation that the outcome of the process will be an equitable sharing of any surplus~~, as equitable sharing is a key characteristic of a JDBP.~~. Shared control means that control over the plan as a whole is exercised through the joint sponsors as a control group. ~~The contractual arrangements for OTPP and OPSEUPP set out how that joint control is exercised, including how surpluses and deficits are dealt with and, consistent with the principles of JDBPs, require an equitable sharing. Importantly, the fundamental contractual arrangements of OTPP (Partners' Agreement) and OPSEUPP (Sponsorship Agreement) cannot be changed without the consent of each of the joint sponsors.~~ Each joint sponsor has the ability to protect its own equitable

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share of the Plan and thus the Ontario Provincial Government can effectively deny access to the other sponsor to the government's share, and vice versa.

As noted in Section [x – recognition 2] above, the ~~joint sponsors do not (either separately or collectively) have an existing legally enforceable right to benefit from a plan asset through a withdrawal of surplus. Rather, the~~ ability of the joint sponsors to benefit from the plan is through contribution holidays. Under the terms of each Plan, the joint plan sponsors have the joint right to contribution reductions and holidays as a means to use any surplus assets in the plans. ~~This means that collectively~~Collectively the sponsors can exercise their shared control to reduce future contributions to the plan and access their portion of the economic resource in the form of future economic benefits. No other parties need to agree to these contribution reductions and the control ~~elements~~element of the asset definition is met on a joint basis.

Other sources of GAAP within PSAS also support that shared control is sufficient for asset recognition. PS 3060 *Government Partnerships*, requires asset recognition for government business partnerships subject to shared control using the modified equity method. This means that the government investor recognizes its share of the income earned by the government business partnership in a year even though the partners have not agreed on whether, when or how much of that income to distribute. PS 3060 requires proportionate consolidation for other government partnerships – a model which results in a government recognizing a proportionate share of the ~~capital~~ assets held under joint control~~, for example,~~ even though the government cannot control the use of ~~that asset~~those assets unilaterally.

If a jointly controlled asset cannot meet the recognition criteria for an asset then it would logically follow that ~~no investments~~governments could not recognize their proportionate interests in ~~government~~ partnerships ~~could be recognized~~. As it is, such assets are recognized by governments applying PSAS in their public accounts. In other words, it is a clearly acceptable concept under PSAS that shared control is sufficient to justify the recognition of ~~a~~the portion of ~~an~~a jointly controlled asset ~~that is under shared control.~~. It seems logical that this concept should also apply to a pension asset of a JDBP. Indeed, requiring unilateral control for asset recognition in JDBPs would in fact preclude any assets ever being recognized in such plans by definition, which would be inconsistent with the guidance in PS 3250 to account for a JDBP using the guidance for defined benefit plans, which includes guidance on the recognition of accrued benefit assets. Like PS 3250, PS 3060 discusses the equitable sharing of risks and rewards as a key feature of joint control. In the context of PS 3250, and consistent with the Panel's views expressed in Section [X – recognition 1] the defined benefit guidance is to be applied to each plan~~, and then the members of control group each pick up their share~~ as a whole, and then the sponsors sharing control group each recognize their share. Consistent with PS 3060, it is not necessary for a specific decision to have been reached on the

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timing or amount of distributions of or from assets under joint control. Rather the important element is the existence of agreements on how such decisions will be made jointly, and that each sponsor have an effective veto.

Panel view

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Unilateral control in a JDBP is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSAS. The joint sponsors jointly control the entire net pension asset, and each can recognize ~~their~~its portion of that jointly controlled asset.

4) Recognition criteria – Expectation that future economic benefits will be obtained

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In addition to the analysis performed under PS 3250, the Panel considered if the recognition criteria of PS 1000 were met for the Ontario Provincial Government's share of the net pension asset.

For OTPP, the plan terms may be negotiated to increase (or decrease) contributions or increase (or decrease) plan benefits. The past history of the sharing of plan surpluses between the Ontario Provincial Government and the Ontario Teachers' Federation (OTF) indicates that on the side of the Ontario Provincial Government the equitable sharing of surpluses ~~as~~has resulted in reductions of Employer contributions, even while the OTF has negotiated increases in member benefits in respect of utilizing their equitable share of any surplus. [REF: Appendix G of the Ontario Provincial Government's position paper]. While ~~there is no certainty as to~~ the form of future benefit ~~that~~will be determined by joint sponsors' preferences and priorities at the time of future negotiations ~~will take~~, this history indicates that the Ontario Provincial Government has been able to negotiate reductions in contributions in the past ~~and~~. This supports an expectation that ~~they~~it would be able to do so in the future, given ~~their~~its negotiating rights under the Partners' Agreement and the requirement that the risks and benefits of the plan be shared equitably.

For OPSEUPP, the "rate stabilization reserves" mechanism ~~also supports~~provides even stronger support that the Ontario Provincial Government has a valid expectation of being able to benefit from any plan surplus that arises as the reserves can be used to reduce future contributions.

The application of the specific definition of "expected future benefits" in PS 3250 is discussed further in Section [x – measurement] below. If the application of PS 3250 results in "expected future benefits" sufficient to ~~supports~~support a net pension asset, then by definition, this asset would meet the recognition criteria in PS 1000.

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~~Both the OTPP and OPSEUPP have unamortized (unrecognized) actuarial gains as at March 31, 2016 which, when recognized, will increase the accounting amount of the accrued benefit asset. To the extent that there are expected future benefits in excess of the accrued benefit asset these would not be recognized under PS 3250, even though a reasonable estimate of the amount of the expected future benefits could be made. Conversely, the Panel observes that when a plan has unamortized actuarial losses an accrued benefit asset may be recognized in excess of any amount of expected future benefit as calculated by PS 3250, as the specific recognition provisions in PS 3250 override the conceptual requirements for expected future benefits in respect of unamortized actuarial losses that have not yet been recognized. The Panel notes that the current PS 3250 requirements are applied to pension plans, as PS 3250 is a primary source of GAAP. However, the Panel recommends that the inconsistency between the recognition criteria in PS 1000 and the requirements of PS 3250 is addressed by the PSAS Employment Benefits Task Force. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.~~

Panel view

For both OTPP and OPSEUPP the general recognition requirement of "expected future benefit" is met.

Panel View – Recognition issues

PS 3250 requires the recognition of an asset for the government's portion of the plan surplus for both ~~plans~~Plans. This is consistent with the financial statement concepts of PSAS including the definition of an asset and the recognition criteria in PS 1000. That is, the Panel concludes that:

- a resource exists that has a future economic benefit
- the Ontario Provincial Government controls access to that resource, and
- the resource exists as the result of past transactions and events.

For the Ontario Provincial Government to recognize a liability for its portion of a net liability but be unable to recognize an asset for ~~their~~its portion of a net asset which represents a ~~true~~ economic resource, would not faithfully represent the ~~economics~~economic substance of a JDBP whereby the risks and ~~rewards~~benefits of the plan are shared equitably between the Joint Sponsors.

Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

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Measurement issues

Overview of guidance on measurement of an accrued benefit asset

PS 3250 paragraphs 50 to 59 provide guidance on measuring any accrued benefit asset that results when the plan assets are ~~measured at an amount~~ greater than the accrued benefit obligation. This is known as the "Limit on the carrying amount of an accrued benefit asset" (the "~~Limit guidance~~Asset Ceiling Test" or "Valuation allowance"). Consistent with the Panel's views in Section [x – recognition 1~~]~~], the guidance on defined benefit plans is applied to JDBPs prior to the government recognizing its portion of the plan. The ~~Limit guidance~~Asset Ceiling Test should also be applied to the plan as a whole, prior to the joint sponsors recognizing their respective portions of the result.

PS 3250 defines an accrued benefit asset as "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)." [PS 3250.GLOSSARY]

Any accrued benefit asset is adjusted for net unamortized losses, before testing for the valuation allowance, to give an adjusted benefit asset. "Adjusted benefit asset is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will reduce the accrued benefit asset over time as these losses are recognized. No adjustment is made for net unamortized gains as these would increase the accrued benefit asset, which would be inconsistent with the accounting model in PS 3250. In the case of OTPP and OPSEUPP there are net unamortized gains, ~~and~~ so the accrued benefit asset equals the adjusted benefit asset.

PS 3250 requires the *expected future benefit* to be compared to the adjusted benefit asset [3250.54], and specifies how the expected future benefit is to be calculated:

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

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b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations. [PS 3250.56]

The difference, if any, by which, the adjusted benefit asset exceeds the expected future benefit is the amount of the valuation allowance, which ~~is recorded against~~reduces the accrued benefit asset with a corresponding amount recognized as an expense in the statement of operations.

1) Impact of legally enforceable rights on calculation of expected future benefit amount

As noted in Section [x – recognition – 4] above, the objective of the ~~Limit guidance~~Asset Ceiling Test in PS 3250 is to ensure that any asset recognized is measured at an amount that can be realized in the future, or in other words, the expected future benefits that can be obtained from the asset. [PS 3250.55] ~~Under~~As previously discussed, the standard ~~there are~~identifies two ways that expected future benefits may be realized – through the withdrawal of surplus or through ~~using the surplus to pay for benefits earned by members in future periods – that is, paying lower contributions into the plan in the future, often referred to as a "contribution holiday".~~ reduced contributions.

~~The Panel~~As the Panel previously concluded that the Ontario Provincial Government did not have the ability or intention to withdraw surplus, it did not put any emphasis on expected future benefits arising from withdrawal of plan assets~~, as the Ontario Provincial Government does not expect to benefit from surpluses through a withdrawal, and there is no explicit right for the sponsors to claim a withdrawal from the plans. This is consistent with the discussion in Section [x – recognition 2] above.~~. PS 3250 ~~paragraph 59~~.059 requires a legally enforceable right to exist before an expected future benefit can be recognized for a withdrawal or surplus. The Panel believes that these requirements apply specifically to the expected future benefits of paragraph 56 (b) (withdrawal of surplus) and not to the amounts calculated in accordance with 56 (a) (contribution holidays). Each sentence in paragraph 59, other than the last ~~sentence~~one, specifically refers to a withdrawal of assets from the plan. Legally speaking, and consistent with the plan text of OPSEUPP, a contribution holiday is ~~not the same as~~significantly different from a withdrawal of surplus, and the concepts are not interchangeable. Therefore, in the Panel's view it ~~would~~is not ~~be~~ appropriate to analogize guidance that is specific to the legal circumstances surrounding surplus withdrawals to the substantively different circumstances of contribution holidays.

The last sentence in paragraph 59 refers to changes in the agreed allocation of surplus between joint sponsors. OTPP and OPSEUPP existing plan documents govern the allocation of surplus or establish a process governing ~~how to agree upon~~decisions

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Commented [LD14]: MG comment. This paragraph deals only with surplus withdrawals – not with contribution holidays, and I believe this is an important point to reiterate here.

Response: Is panel comfortable saying that this sentence logically must also be discussing only surplus withdrawals?

Edits to be discussed - Technically between govt and employees, to discuss implications of this.

about the allocation of surplus on an equitable basis. ~~In the case of OTPP, the Partners' Agreement and Funding Management Policy provide a clear process governing surplus utilization that begins with the identification of a surplus in a preliminary valuation and extends through good faith bargaining, mediation and final and binding arbitration.~~ There is no need to change the existing rights within the contractual ~~arrangement~~arrangements in the Plans in order for the Ontario Provincial Government, as joint sponsor, to ~~negotiate~~obtain an expected future benefit. ~~In the case of OPSEUPP, the surplus is currently allocated to each joint sponsor the form of their respective stabilization reserve pools.~~ Consistent with ~~this~~the last sentence of paragraph 59, a change to the plan documents would be needed to alter these arrangements and any change would affect the accounting only when it became effective.

PS 3250 paragraph 52 notes that the expected future benefits may be affected if a government is not entitled to benefit fully from those expected future benefits or there are uncertainties as to the legal right to use a plan surplus. Such limitations might occur, for example, when there is an enduring promise from an employer requiring that it will always match the members' fixed contributions, or contribute a specified dollar amount, or ~~where~~when there is a floor in contribution requirements, which might limit the employer's ability to benefit fully from future reductions in contributions.

~~In the OTPP there is no~~No such restriction exists in the OTPP. The government's contribution required by the *Teachers' Pension Act* is limited to a maximum (and not a minimum) of the members' contributions. The current arrangement that the employers match a prior years' contribution level by members is by agreement of the joint sponsors ~~and~~, however, the contribution levels may be changed in the future as part of the negotiations to create an actuarially balanced funding valuation. Under the existing Plan framework, the plan sponsors' contributions can be reduced or eliminated through the exercise of shared control with the other joint sponsor.

Similarly, for OPSEUPP the plan text ~~agrees to~~specifies matching employer/member contributions, but this may also be changed through a decision by a sponsor to utilize its RSF to reduce its special payments or normal cost contributions. Contributions would also still be matched if both employer and employee contributions were reduced.

Ultimately, all the decisions regarding plan contributions and plan benefits rest with the joint sponsors, which entitle them to share any plan surplus on an equitable basis (see Section [x – recognition 2] above) and there are no legal uncertainties regarding the sponsors' rights, as joint sponsors, to determine contribution and benefit levels. It is clearly laid out in the legal and contractual arrangements of both OTPP and OPSEUPP.

CONFIDENTIAL DRAFT

Panel View

A joint sponsor does not require a unilateral legally enforceable right to reduce future contributions at the balance sheet date to have an expected future benefit under paragraph 56 (a). Rather, the sponsors jointly must be entitled under existing plan arrangements to reduce contributions. In the case of OTPP and OPSEU, they do.

2) Calculation of the present value of expected future accruals for service for the current number of active employees

PS 3250 provides guidance on how to calculate the present value of expected future accruals for service for the current number of active employees.

Under ~~this~~the guidance, this amount is determined on a basis consistent with the accrued benefit obligation. The calculation is based on an open group, which assumes that the current number of employees will exist in perpetuity. This is generally recognized in practice as being an appropriate assumption for the application of this test under PSAS~~,~~ unless a significant change in the number of members is expected, for example because a plan is closed to new members or because of a planned restructuring. The Panel is not aware of any such changes that are expected for either OTPP or OPSEUPP.

The guidance notes~~,~~ that, in addition to the expected future ~~accrual~~accruals for service, the expected administrative and investment expenses to be paid out of the plan can be included in the calculation, if they are not already taken into account in the expected return of assets rate.

Panel View

The application of the guidance on expected future accruals for service is relatively straightforward to apply to OTPP and OPSEUPP. The Panel suggests that the Ontario Provincial Government might consider to what extent the expenses paid out of the plans should be included in the determination of the future economic benefit.

3) What are the "minimum contributions the government is required to make regardless of any surplus"

In calculating the expected future benefit that can be obtained through contribution holidays, PS 3250 requires ~~that~~ minimum contributions that the government is required to make regardless of any surplus ~~are~~to be considered. If any requirements exist that would compel a sponsor to continue to make contributions at a certain level, even when

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there are plan surpluses on funding basis, it would be impossible for the sponsor to ~~obtain~~benefit from a reduction in contributions to the plan~~ and therefore there would be no expected future benefit that could be obtained through a contribution holiday~~.

Consistent with the analysis in Section [x – measurement 1] the Panel concluded that the joint sponsors can take a contribution holiday since there are no external or legal restrictions on the ability of the joint sponsors to ~~take contribution reductions~~reduce contributions.

A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus~~ and not accounting surplus, and that if~~. If any contributions are required even when there is a funding surplus these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits.

As the OTPP ~~Partners~~Partners' Agreement requires ~~that~~ any valuation filed for regulatory purposes ~~must~~to be ~~an~~ "actuarially balanced~~" valuation, there is~~", no funding surplus ~~that arises, as any preliminary~~ will exist in those valuations. Any funding surplus in a preliminary valuation must be dealt with through the negotiation process~~. A funding surplus could arise prior to~~ before the ~~mandatory filing of the next actuarially balanced funding~~final valuation ~~which must occur only once every three years. However, the joint sponsors may agree to file a funding valuation every year if they choose, to rebalance the contributions, reserves, and benefits of the plan.~~ is filed. As the joint sponsors must agree on the contribution levels and make corresponding changes to the plan if necessary, there are no "minimum contributions" that must be made, "regardless of any surplus", as there is no minimum level of contributions that must be ~~agreed upon~~made by the joint sponsors. Further, since the OTPP actuarial valuations must be balanced, showing no surplus or deficit, ~~there is also~~ no ~~ultimate~~ funding surplus ~~that~~ is anticipated by the OTPP. ~~They~~The sponsors can agree to any level of contributions as long as the result is actuarially balanced~~ and~~ so the level of surplus absolutely affects the contributions that are determined by this negotiation process. Any agreed upon contribution rates are made with regard to the Plan's funded status and cannot be said to be required "regardless of any surplus".

Similarly, for OPSEUPP the stabilization reserves act as limits on the amount of funding surplus that accrues in the plan. Whether these stabilization reserves are used to reduce contributions or are maintained as a buffer against variability on contribution rates is at the discretion of the sponsors. This is very similar to the ability that a single sponsor has to reduce contributions or maintain a reserve as a buffer for future changes in actuarial assumptions. Again, the contributions made by the joint sponsors depend

CONFIDENTIAL DRAFT

upon the Plan's funded status and cannot be said to be required "regardless of any surplus".

~~There is also a question as to whether~~It has been suggested that a joint sponsor can impose a minimum contribution requirement on the other joint sponsor because shared control means that both sponsors must agree to any change in contribution levels. Therefore, absent any agreement, the existing contribution levels are "fixed" and cannot be changed. However this view would not be consistent with the notion that the valuation allowance is being applied to the plan as a whole, with the joint sponsors able to collectively control the contribution levels under the plan arrangements, and that the joint sponsors are entitled to an equitable portion of any surplus under the basic JDBP arrangements.

Panel view

The Panel noted that the Ontario Provincial Government had considered a number of calculations regarding the expected future benefit for both OTPP and OPSEU, based on different assumptions regarding what ~~were~~ the minimum contributions were required under each plan. For example, scenarios included no minimum contributions, minimum contributions as the agreed upon contribution until the next mandatory negotiations in three years; minimum contributions as the currently agreed upon contributions for a longer period; and minimum contributions equal to the currently agreed upon contributions until certain limitations on contributions under the Income Tax Act would be expected to become effective~~.~~. In no case were the expected future benefits determined to be less than the accrued benefit asset, so no valuation allowance was required.

Based on the analysis of the plan arrangements for OTPP and OPSEUPP, the Panel view is that there are no "minimum contributions regardless of any surplus" for OTPP beyond the next actuarial filingfor either plan.

Panel view - Measurement

In the Panel's view, the joint sponsors of both OTPP and OPSEUPP are entitled to access any surplus in the respective Plan through contribution holidays and therefore the expected future benefits for a Plan should be determined as 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.

Commented [PO15]: Not sure this really deals with the argument. For OTPP they have to come to some agreement to deal with the surplus to fine a final valuation or one will be imposed. For OPSEUPP they have a policy on the size of the reservbes. And in both cases eventually the ITA limits will kick in.

Commented [LD16R15]: Edits to be made/discussed

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The expected future benefits would be calculated based on the plan as a whole. In the Panel's view there are no minimum contributions that the joint sponsors are required to make, regardless of any surplus. As such, ~~if~~when the present value of expected future accruals for service for the current number of active employees~~-~~, less the present value of required employee contributions, is sufficient to support the accrued benefit asset of each Plan, calculated in accordance with PS 3250, no valuation allowance ~~would be~~is required. The Ontario Provincial Government ~~would recognize~~Public Accounts should reflect its portion of the OTPP accrued benefit asset and the OPSEUPP accrued benefit asset ~~in the Public Accounts~~.

The Panel noted that determining the "minimum contributions that the government is required to make regardless of any surplus" for both sole employer sponsored plans and JDBPs may be difficult and subject to significant interpretations, indicating that PS 3250 is not as clear as it could be regarding the application of the defined benefit plan guidance to JDBPs. Section [x] of the report includes a recommendation to the PSAB Employment Benefits Task Force on this observation.

Commented [LD17]: Discuss what these are with Panel. Should we be clear? E.g. not more than 3 years for OTPP.

Commented [LD18]: Uros comment:
We should discuss a bit further how we position these recommendations. Right now, the document reads a bit like we make a firm conclusion on a question, generally agreeing with the Province, but then revert back and say 'this is unclear and the PSAB Taskforce should look into it".

Another approach would be to hold all recommendation to the end of the document, then make a broad statement that the Panel supports PSAB's initiative to review and update the standards. In particular, we suggest that the Taskforce consider all areas discussed in our report, including:…. (and list out all the various topics)

Right now, someone could unfairly look at the report and say "there is a bunch of gray areas, and this Panel has sided with the province on each single count"

To discuss at Panel.

Recommendations to PSAB Employment Future Benefits Task Force

Application of guidance to Joint Defined Benefit Plans

The Panel notes that the standard would benefit from clarification on how the ability to access expected future benefits should be applied in the context of Joint Defined Benefit Plans. A clarification on how the guidance in PS 3250.81 should be applied (Interpretation A or Interpretation B) would be helpful.

Minimum contributions

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that funding valuations drive decision making ~~over~~about plan funding, including contribution increases or reductions by sponsors. However, funding valuations may result in net pension assets or ~~liability~~obligations that are very different from the accounting net pension asset or liability. This results in a lack of clarity about whether minimum contributions may be required "regardless of any surplus" and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. The Panel also observed that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. The Panel believes it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.

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Additional clarity on what constitutes a “minimum contribution” could increase consistency of application of this guidance for joint defined benefit plans. There can be difficulty in determining minimum contributions in the context of JDBPs and some single sponsor plans, when future contributions are dependent on future negotiations, which in turn depend on the future funded status of the plan. For example, whether the minimum contributions are based on accounting surplus or funding surplus; or whether the determination should be based only on present surplus or on a projected future surplus.

Deferral accounting

In looking at the issues in respect of the OTPP and OPSEUPP, the Panel observed that the existing deferral provisions have the potential to result in an asset being recognized ~~on~~in financial statements when there is no underlying economic resource. Although this is not currently the case for either the OTPP or the OPSEUPP, this could occur when unamortized losses exist such that, despite the fair value of the plan assets being less than the estimated accrued benefit obligation, an accrued benefit asset could still be presented. This can be confusing to users of the financial statements as it is not transparent as to the underlying economic resource of the plan. Transparency is in the public interest. It is most transparent when all liabilities or assets that exist are recognized and assets are not recognized where there is no underlying resource that gives rise to future economic benefit. Any mechanisms ~~used~~proposed to deal with potential income ~~statement~~ volatility concerns (such as recognizing gains and losses outside of the statement of operations) should ensure that ~~these~~they do not result in lack of transparency on the balance sheet.

Discount rates

The Panel supports PSAB examining discount rates for employment benefits. The Panel understand that in the public sector the sponsor’s borrowing rate is often used for unfunded plans and an asset return rate is used for funded plans. An appropriate asset return rate will vary depending on how the assets are invested. The discount rates used by public sector entities is also likely to be different ~~than~~from the discount rates used in a plan’s own financial statements prepared under Part IV of the CPA Canada Handbook – Accounting, resulting in significantly different measurements of accrued benefit obligations for the same plan in different financial statements. This lack of consistency is confusing to users.

The Panel observes that many more recent accounting pronouncements relating to liability measurement require ~~that~~ the discount rate used to measure the liability to capture the risks inherent in that liability. The Panel suggests that the Task Force consider whether the method intended to be 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.

Commented [LD19]: MG comment. Some of the difficulty in using a market based interest rates flows from the significant volatility in these rates post-Crisis. Caution may be warranted in using such rates to express a view about the health of a long term commitment such as a pension fund.

Commented [LD20]: MG comment - As a practical financial matter, it is impossible to settle public sector plan liabilities through the annuity market, which is not large enough to accommodate even a fraction of one of the plans. Accordingly, I am not sure that the method of settlement is clear in the public sector, at least for the size of plan under consideration in this report. Perhaps the less we say about this issue, the better?

CONFIDENTIAL DRAFT

Funding valuation

As a funding valuation may result in a funding surplus or deficit that is very different from the accounting surplus or deficit this may be confusing to some users where both measures are presented in the same document.

The Panel believes it may be beneficial to include additional discussion in a revised standard or other material about how the objectives and assumptions in funding valuations may differ from those used in the accounting valuation and why.

The Panel suggests that a disclosure highlighting differences in the funding valuation compared to the accounting valuation should be made in the financial statements of pension plans and/or in the financial statements of sponsors when information on the funding valuation of a plan is also made public or available to the same users of the financial statements. This would be useful to users as it would provide additional context for both the accounting and funding valuations.

CONFIDENTIAL DRAFT

APPENDIX A – PENSION PLAN GOVERNING ARRANGEMENTS

OTPP

- The *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (Link to the Teachers' Pension Act);
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The plan text for OTPP;
- An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP).

OPSEU

- The Ontario Public Service Employees' Union Pension Act, 1994 S.O. 1994, c 17, s.143 Sched (Link to the Ontario Public Service Employees' Union Pension Act)
- The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the Pension Benefits Act);
- The sponsorship agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Chair of the Management Board of Cabinet and the Ontario Public Service Employees' Union, dated April 18, 1994, as amended (The Sponsorship Agreement);
- The Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund, dated October 25, 1994, as amended (The Trust Agreement);
- The plan text for OPSEUPP;
- OPTrust Funding policy.

CONFIDENTIAL DRAFT

Appendix B - Accounting references

Canadian Public Sector Accounting Standards

PS 1000, Financial Statement Concepts

PS 1000.13 Context of government financial statements

.13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

PS 1000.23 -.31 Qualitative Characteristics

.23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.

.24 Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.

.25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

.26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented

CONFIDENTIAL DRAFT

in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.

.27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.

.28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**
Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**
Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**
Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

CONFIDENTIAL DRAFT

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph PS 1000.22 and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not

CONFIDENTIAL DRAFT

understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**
The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

.30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

.31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

PS 1000.35-38 Definition of an asset [Currently effective, prior to adoption of PS 3210, Assets]

.35 **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

CONFIDENTIAL DRAFT

.37 An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:

(a) no future economic benefit;

(b) future economic benefit, but the government cannot obtain it; or

(c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

.38 For an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others. For example, the direct benefits of education and health care programs accrue to and are controlled by the individuals who are educated or treated and healed. Therefore, the costs of such programs, which are often called "investments", are excluded from being assets of the government.

PS 1000.52-.56 Recognition

.52 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into item totals on a financial statement together with a narrative description of the item (for example, receivables, user fees, grants) in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

.53 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.54 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether a particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.55 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

.56 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the

recognition criteria in notes to the financial statements. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past transaction or economic event that gives rise to an asset, liability, revenue or expense as defined in this Section.

PS 1100, Financial Statement Objectives

PS 1100.19-.32, Reporting financial position [Currently effective, prior to adoption of PS 3210, Assets]

.19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.

.20 **Objective 2**

Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:

(a) the government's ability to finance its activities and to meet its liabilities and contractual obligations; and

(b) the government's ability to provide future services.

.21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

.22 **Economic resources** are scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. Financial and non-financial resources comprise the economic resources of a government.

.23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's

financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.

.24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.

.25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.

.26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:

(a) the net financial resources or net debt of a government; and

(b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.

.27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.

.28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

.29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

.30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.

.31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.

.32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.

PS 1150, Generally Accepted Accounting Principles

PS 1150.04-.12 Sources of GAAP

.04 A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity.

.05 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

CONFIDEN

.06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.

.07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

.08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:

(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.

(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.

(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.

(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.

.09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.

.10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the

CONFIDENTIAL DRAFT

elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).

.11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.

.12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.

PS 1150.14 Primary sources of GAAP

.14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

PS 1150.18-.20 Other sources

.18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

.19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances.

.20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in

CONFIDENTIAL DRAFT

paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.

PS 3210, Assets [Effective for annual periods beginning on or after April 1, 2017]

PS 3210.03-.05 Assets

.03 **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.

.04 Assets have three essential characteristics:

(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefits.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.05 Economic resources are not assets unless they meet the three characteristics of assets.

PS 3210.06-.10 Economic resources

.06 Economic resources embody value because they enable an entity to meet its objectives, such as the provision of public goods and services, redistribution of wealth, generation of cash inflows or reduction of cash outflows.

.07 To embody value as an economic resource, there must also be some restriction on its availability. For example, the air we breathe generally cannot be an economic resource unless access to it is restricted.

.08 Economic resources can arise from, but are not limited to, the following:

(a) contracts or agreements (for example, accounts receivable and leases);

(b) another government's legislation (for example, transfers receivable);

(c) government's own legislation (for example, taxes, fines and penalties);

(d) voluntary contributions (for example, donations); or

(e) construction and development (for example, roads).

.09 Economic resources can be:

(a) financial in nature (for example, cash, accounts receivable and investments); or

(b) non-financial in nature (for example, tangible capital property, prepaid items and inventories of supplies).

.10 Without an economic resource, future economic benefits cannot be obtained. For example, a fire truck (the economic resource) needs to exist before it can provide fire suppression services (the future economic benefits).

PS 3210.11-.15 Future economic benefits

.11 The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

.12 Often the public is the beneficiary of the goods and services provided by a public sector entity. For example, assets such as fire trucks are used to provide fire suppression services to the public. Hospital buildings and medical equipment are used to provide health care services. Parks, schools and libraries provide recreational, educational and research opportunities to the public. Water treatment plants provide goods, such as potable water. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services. This benefit is different from the benefit that the public receives.

.13 The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relate to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have user fees associated with them.

.14 The future economic benefits may also take the form of a capacity to reduce cash outflows. For example, this may be the case when betterment of a tangible capital asset reduces the cost of providing goods and services.

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service capacity of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

PS 3210.16-.21 Control

.16 A public sector entity controls the economic resource and access to the future economic benefits when it:

(a) can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;

(b) can deny or regulate access to those benefits by others; and

(c) is exposed to the risks associated with the economic resource.

.17 An entity that controls an economic resource has the ability to benefit from the economic resource. For example, a recipient of a transfer benefits from the transfer as it can use the transfer to provide goods or services.

.18 An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits associated with the economic resource by others. For example, an entity controlling a bus has the ability to deny or regulate access to the related transportation services.

.19 An entity that controls an economic resource is exposed to the risks associated with the economic resource. For example, the entity may hold an investment, the value of which may decline and result in a loss.

.20 Some economic resources are subject to certain external restrictions that specify the purpose(s) for which resources are to be used. For example, there may be external restrictions imposed on the public sector entity's own assets, as is the case with some sinking fund investments. Such restrictions on the use of an economic resource do not negate the public sector entity's control of the economic resource.

.21 Although control may be seen as applying to an asset as a whole, the concept can also be applied to individual rights related to the asset. For example, a single leased asset embodies different economic benefits. It may give the lessee the right to use the property and the lessor the right to receive rents and any residual value. Thus, both parties may have assets corresponding to their respective rights.

PS 3250, Retirement Benefits

PS 3250.17 Components of the retirement benefit liability

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

PS 3250.50-.59 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.

CONFIDEN

.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.

CONFIDENTIAL DRAFT

.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 expensxes 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.

PS 3250.79-.82 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.

.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

CONFIDENTIAL DRAFT

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.

PS 3250.GLOSSARY (select definitions)

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

An **accrued benefit obligation** is the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Actuarial gains and losses are changes in the value of the accrued benefit obligation and the plan assets resulting from:

(a) experience different from that assumed; or

(b) changes in an actuarial assumption.

An **actuarial valuation for accounting purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the retirement benefit liability and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of the financial status of a benefit plan. It consists of the valuation of assets held to discharge the benefit liability and calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains or losses since the last valuation.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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.

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

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

(a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and

(b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

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

The **retirement benefit liability** is the amount of any liability recognized on a government's statement of financial position in respect of retirement benefits. It is the sum of the current and prior years' benefits expenses less the government's accumulated cash contributions.

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A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits

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