

1 - Email - February 2 2017 - RE_ PAEAP - New Media Qs.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [Petsche, Nadine \(TBS\)](#)
Cc: [Tam, Nelson \(TBS\)](#); [Hosick, Sarah \(TBS\)](#); [Sullivan, Bryant \(TBS\)](#)
Subject: RE: PAEAP - New Media Qs
Date: February-02-17 11:11:56 AM

Hi Nadine-

Thank you for this, we appreciate it!

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: Petsche, Nadine (TBS)
Sent: February-02-17 10:13 AM
To: Ovenden, Erin (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Sullivan, Bryant (TBS)
Subject: PAEAP - New Media Qs
Importance: High

Hi Erin.

Please see draft responses below. Nadine

From: Ovenden, Erin (TBS)
Sent: January-30-17 4:30 PM
To: Tam, Nelson (TBS); Petsche, Nadine (TBS)
Cc: Sullivan, Bryant (TBS); Jackson, Sarah (TBS)
Subject: PAEAP - New Media Qs

Hi-

Things are motoring along on our end. We've been asked to add three new media qs to our products that will need your expertise to answer please.

1. Are you basing your position on an accounting standard that hasn't come into effect yet?
[The Province appreciates the thoroughness of the Panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance. Not every possible situation can be addressed by accounting standards. In such cases, it is important to reference the conceptual framework and other standards which may provide guidance. The supplementary sources referenced by the Panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered.](#)
2. The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the Panel are consistent with the position taken by the government during the 2015-16 Public Accounts and for the previous 14 years. Although the Panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government would report on its books, the end result is the same and supports the government's historical accounting for pensions.

3. I thought the disagreement was about OPSEUPP and OTPP so why is there a supplemental report to review other pension assets like HOOP and CAATTPP?

You are correct that the AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the province's books at this time.

Thank you both,

Erin Ovenden

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10 - Email - February 7 2017 - RE_ FYI_ MO Edits to PAEAP Report News Release.pdf

From: [Hosick, Sarah \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Cc: [Petsche, Nadine \(TBS\)](#); [Veinot, Cindy \(TBS\)](#)
Subject: RE: FYI: MO Edits to PAEAP Report News Release
Date: February-07-17 3:16:10 PM

Thanks! Nadine/Cindy if you have any concerns please raise asap.

From: Tam, Nelson (TBS)
Sent: February-07-17 3:16 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: FYI: MO Edits to PAEAP Report News Release

Sarah

I am okay with the updated NR. The second paragraph is consistent with the Panel's advice which was

“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.”

Thanks

Nelson
X20514

From: Hosick, Sarah (TBS)
Sent: February-07-17 2:05 PM
To: Tam, Nelson (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Fw: FYI: MO Edits to PAEAP Report News Release
Importance: High

Hi nelson

Can you please fact check the attached updated NR? In particular the panel's conclusions in second paragraph jumped out at me.

MOF will fact check the quick fact #s

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ovenden, Erin (TBS) <Erin.Ovenden@ontario.ca>
Sent: Tuesday, February 7, 2017 1:29 PM
To: Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Cc: Miller, Amanda (TBS); Sullivan, Bryant (TBS)

Subject: FYI: MO Edits to PAEAP Report News Release

Hi Sarah and Patrick-

MO have made edits to the PAEAP News Release (see attached). They need us to do a **quick factual review before 3:15 p.m. today**. The new numbers in the Quick Facts are with MOF for review. Please let us know if there is anything else in the updated version that we need to flag.

Thanks,

Erin Ovenden

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11 - Email - February 7 2017 - PAEAP - Outstanding Items.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#); [Hosick, Sarah \(TBS\)](#)
Cc: [DiMuzio, Sofie \(TBS\)](#); [Sullivan, Bryant \(TBS\)](#)
Subject: PAEAP - Outstanding Items
Date: February-07-17 6:37:31 PM
Attachments: [PAEAP Report Supplementary Qs to OPCD.docx](#)

Thank you both for all the help and support today.

On our end, we're moving the news release, media qs (pending your tech qs), Minister's statement and updating the media protocol.

I wanted to flag two outstanding items that we need from OPCD asap tomorrow.

1. Technical qs (I've attached a blank doc with the Qs. Please feel free to use this only if it helps)
2. PAEAP's briefing deck

On our end, we're moving the news release, media qs (pending your tech qs), Minister's statement and updating the media protocol.

Erin Ovenden

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PAEAP Report_Supplementary Qs_to OPCD.pdf

Supplementary Qs&As:

- What issue does this report address?

TBC OPCD

- What is the report's conclusion?

TBC OPCD

- What resources were used to arrive at this conclusion?

TBC OPCD

- The report supports Ontario's interpretation of the PSAS standards. Why?

TBC OPCD

- The report disagrees with the Auditor General's interpretation of the PSAS standards. Why?

TBC OPCD

- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

TBC OPCD

- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

TBC OPCD

- Why is there a supplemental report to review other pension assets like HOOP and CAATTPP?

TBC OPCD

11 - PAEAP Report_Supplementary Qs_to OPCD.docx

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TBC OPCD

- Why is there a supplemental report to review other pension assets like HOOP and CAATTPP?

TBC OPCD

12 - Email - February 9 2017 - RE_ Panel - technical Qs_As.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [Hosick, Sarah \(TBS\)](#)
Cc: [Miller, Amanda \(TBS\)](#); [Tam, Nelson \(TBS\)](#); [Sullivan, Bryant \(TBS\)](#)
Subject: RE: Panel - technical Qs/As
Date: February-09-17 8:19:30 AM

Okay, thanks.

We're almost there!

Erin Ovenden

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From: Hosick, Sarah (TBS)
Sent: February-09-17 8:18 AM
To: Ovenden, Erin (TBS)
Cc: Miller, Amanda (TBS); Tam, Nelson (TBS); Sullivan, Bryant (TBS)
Subject: RE: Panel - technical Qs/As

Hi Erin,

If it needs to stay in, then we can leave it as is.

Thanks
Sarah

From: Ovenden, Erin (TBS)
Sent: February-09-17 8:03 AM
To: Hosick, Sarah (TBS)
Cc: Miller, Amanda (TBS); Tam, Nelson (TBS); Sullivan, Bryant (TBS)
Subject: RE: Panel - technical Qs/As

Hi-

Thanks for getting these to me. We need the question Cindy has highlighted because we anticipate that it will be asked. We need to make sure everyone is armed with the right answers to any and all possible questions. Does Cindy have a suggestion to word the question better?

Erin Ovenden

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From: Hosick, Sarah (TBS)

Sent: February-08-17 10:31 PM
To: Ovenden, Erin (TBS)
Cc: Miller, Amanda (TBS); Tam, Nelson (TBS)
Subject: Panel - technical Qs/As

Hi Erin,

Please see attached for Q&As, reviewed by Cindy (currently with Karen for approval).

There is one question highlighted in the attached that Cindy would like removed if possible. The question is a bit unclear and likely because it has been simplified we are unsure what outcome is being achieved that is not answered through other questions.

Happy to discuss.

thanks
Sarah

12 - Technical QA v1_clean.docx

What issue does this report address?

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's 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 of Ontario during the 2015-16 Public Accounts audit.

What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans (Ontario Teachers' Pension Plan and Ontario Public Service Employees' Pension Plan) should be recognized in Ontario's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been since 2001 when the accounting standard was first adopted.

What resources were used to arrive at this conclusion?

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

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. 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.

The report supports Ontario's interpretation of the public sector accounting standards. Why?

The report agrees with the province's application of the public sector accounting standards regarding the recording of the net pension assets for the jointly sponsored plans. The Panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

In addition, the panel agrees with the Province's conclusion that no reduction in value is required for either of the assets.

The report disagrees with the Auditor General's interpretation of the PSA standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans. The panel does not specifically address the AG's interpretation of PSA standards; however, its conclusions differ from the AG based on its assessment and understanding of the facts.

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

Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Financial Reporting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issues. The Panel's reference to recent Canadian standard setter guidance, and international standards is appropriate in this circumstance.

The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

Commented [CV1]: I would suggest deleting this question.

Why is there a supplemental report to review other pension assets like HOOPP and CAATPP?

HOOPP and CAATPP are multiemployer pension plans, and may move into a net pension asset position in the future. The government felt it was prudent to also review the accounting for this potential situation now given these plans differ in structure from the jointly sponsored pension plans that were the subject of the disagreement between the professional staff and the AG.

The Province will continue to review its accounting treatment as PSAB standards change in the future.

The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province 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 would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

What does it mean that a future benefit is available to the government?

Assets embody future economic benefits that allow a government to achieve its 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.

Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards of the plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with 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. 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.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSA standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The province does not have unilateral control but does have control over its portion of the net pension asset either directly for OPSEUPP or via a veto for OTPP. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.

13 - Email - February 10 2017 - FYI_ PAEAP Media Qs.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [MacIntyre, Kyle \(TBS\)](#); [Tam, Nelson \(TBS\)](#)
Cc: [DiMuzio, Sofie \(TBS\)](#); [Sullivan, Bryant \(TBS\)](#); [Miller, Amanda \(TBS\)](#)
Subject: FYI: PAEAP Media Qs
Date: February-10-17 9:34:06 AM
Attachments: [PAEAP Report QA v18 20170209 2230.docx](#)

Hi-

Sharing the final media Qs for the PAEAP Report release. These have been approved by OPCD and fact checked by MOF and Office of the Budget. They are now with the MO.

[Let me know if you have any questions,](#)

Erin Ovenden

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PAEAP Report QA_v18_20170209 2230.pdf

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 9, 2017

Key Messages:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans.
- The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The government is accepting the panel's recommendations, which will inform the preparation of the Province's future financial statements.
- For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately. We are on track to balance the Budget by 2017-18, and remain balanced in 2018-19.

Prior to February 13 - Holding messaging for reactive use only:

- I can confirm that we have received the report from the Pension Asset Expert Advisory Panel.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- It is unfortunate the report has been made public before the government could prepare it for public release.
- The government has every intention of formally releasing the full report to the public as soon as possible.

Media Questions and Answers

Pension Asset Expert Advisory Panel Report

If responding to stakeholder/public comment:

- We are disappointed that stakeholders are commenting on a report that has been made public before the government could properly prepare it for release.
- As I said, I can confirm that we have received the panel's final report.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- The government has every intention of formally releasing the full report to the public as soon as possible.

Contents:

1. Top Media Qs&As:

- It sounds like the government is fighting with the Auditor General again. What do you say to this? (page 3)
- Are you saying the Auditor General is wrong? (page 3)
- This doesn't pass the smell test. Why should an average person on the street believe the government over an independent officer of the legislature? (page 4)
- The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond? (pages 4-5)
- The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it? (page 5)
- The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that? (page 5)
- What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math. (page 6)
- What does this mean for the upcoming Budget? (page 6)
- What will the government do if the Auditor General does not accept the panel's recommendations? (page 6)
- Is the government going to restate the 2015-16 Public Accounts? (page 7)
- Will you continue to accept qualified opinions in the future? (page 7)
- The Auditor General says she also has a number of accounting opinions supporting her position. How do you respond to that? (page 7)

2. Pension Asset Expert Advisory Panel and its report (page 8-10)

3. Auditor General (page 10)

4. 2015-16 Public Accounts (pages 11-12)

5. Deloitte (page 12)

6. Broader Public Sector Executive Compensation Act (pages 12-13)

7. Jointly sponsored plans and accounting standards (page 13-14)

8. Ontario's financial position (pages 14-15)

9. Technical Qs&As (pages 16-18)

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Top Media Qs&As:

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

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

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

If asked to explain the history of this issue:

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

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

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

The government will continue to move forward and present Ontario's finances fairly and accurately.

2. Are you saying the Auditor General is wrong?

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

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

3. This doesn't pass the smell test. Why should an average person on the street believe the government over an independent officer of the legislature?

Look, it's clear there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

Prior to implementing the Auditor's change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

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

The government is accepting the expert panel's recommendations, which will inform the preparation of the Province's future financial statements.

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

The government has a responsibility to get the best advice it can to inform decision-making.

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

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

- **Tricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 since 2007,
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

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

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

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

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

As a result of the independent panel's expert assessment, we now have additional advice on how public sector accounting standards are interpreted as they apply to jointly sponsored pension assets. We thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

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

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

That is simply not true.

For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.

8. What does this mean for the upcoming Budget?

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

We are on track to balance the budget by 2017-18, and remain balanced in 2018-19. We will provide a full update on Ontario's fiscal situation in the near future.

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

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

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

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

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

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

If pressed:

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

We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

Our intention is to prepare future financial statements based on the panel's advice.

The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

If pressed:

We will not re-issue the 2015-16 Public Accounts, but in preparing the 2016-17 Public Accounts, we will follow the advice of the panel and also restate the 2015-16 comparative balances in that document to reflect that advice.

In addition, in other fiscal documents such as quarterly updates or budget documents, the 2015-16 balances will reflect the panel's advice.

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

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

What I can say is we will continue to move forward and present Ontario's finances fairly and accurately. We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

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

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

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

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

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it.

In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Pension Asset Expert Advisory Panel and its report

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

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

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

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

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

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

Ontario remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

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

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

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

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

15. How did the panel reach its conclusions?

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

16. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and public sector accounting standards.

The panel included:

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

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

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

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

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

IF ASKED ABOUT PAUL MARTIN:

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

18. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

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

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

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

20. How long have you had the report?

The panel submitted its final report to the government in early February. A draft report was submitted late January. We used this time to analyze the recommendations, and consult with key stakeholders, including the Auditor General.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

The government has a responsibility to get the best advice it can to inform decision-making.

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

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

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

Auditor General

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

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

24. Do you think the Auditor General is being political in how she's handling this issue?

I can tell you that the government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

2015-16 Public Accounts

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

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

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

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

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

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

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

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

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

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

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

I'm not an accountant. But at a high level I can tell you that when it comes to dealing with a surplus in a jointly sponsored pension plan, the panel found that:

1. an asset does exist

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

2. that asset should be recognized on the Province's books, and
3. unilateral control is not necessary to do so.

In fact, the panel noted that, by their very nature, unilateral control can't exist in joint pension plans because it is a joint arrangement. The sponsors jointly control the asset and must agree on how it will be used.

Deloitte

28. Media are reporting that Deloitte also provided you with advice, which you paid for. Was that advice biased, or were you in a conflict of interest because Ontario's chief controller used to work there?

Absolutely not.

Deloitte is a highly-reputable international accounting firm. They provided an objective accounting opinion, just as they would for any client. Their report was prepared using professional standards as set out by the Chartered Professional Accountants of Canada.

If you have further questions about Deloitte and how they approach their work, I would encourage you to contact them for comment.

29. It has been implied that your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

Broader Public Sector Executive Compensation Act

30. On one hand you're saying you're committed to balancing the budget. But on the other hand you're allowing massive pay increases at agencies like OPG and Metrolinx. How do you reconcile the two?

Affected salaries have been frozen across Ontario since 2012. Work is underway by our broader public sector organizations to establish salary caps based on appropriate comparisons to similar organizations.

As the Premier made clear last week, some proposed salary caps were completely unacceptable. While these proposed salary caps are **not** final salaries at this point, last week I issued a memo to remind employers about our expectations:

- Compensation programs will be modest, with low annual percentage increases.
- If the frameworks are not compliant with the regulation, we will direct the sector to redo the framework.

Media Questions and Answers

Pension Asset Expert Advisory Panel Report

- Employers will work with their overseeing ministries to ensure that salary caps are managed in a way that is fair and understood by the public.
- Once compliant frameworks are in place, we will monitor their implementation closely and will reject any salaries that we believe to be unacceptable.
- Employers will aim to provide the greatest transparency and information possible in their proposals.
- Employers will post their public consultations in a prominent place on their website.

The government is closely monitoring the rollout of this initiative and will take necessary action should an employer fail to develop a compliant compensation program.

Through this process, I expect that executive salaries will be reasonable and publicly defensible. If the government does not believe that standard is met, we will take further action to ensure that public dollars are spent in the public interest.

It is very clear that in some cases the upper end of proposed salaries are unreasonably high, and could potentially lead to unacceptable salary increases. That is why we have reminded employers of that, **and in cases where employers fail to comply, we will refuse salary increases.**

Every dollar of public money should be spent with good intention and consideration, and we will focus on ensuring that happens. It's what Ontarians expect.

Jointly sponsored plans and accounting standards

31. What is a jointly sponsored pension plan?

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

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

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

32. How do Ontario's plans compare to other jurisdictions, such as New Brunswick and British Columbia?

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

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional expert advice on how

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

public sector accounting standards should be interpreted as they apply to jointly sponsored pension plans in Ontario.

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

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

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

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

Ontario's Financial Position

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

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

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

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

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

Even after adopting the Auditor General's interpretation of jointly sponsored pension plans in the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

The government continues to project a balanced budget by 2017-18 and to remain balanced in 2018-19, consistent with the *2016 Budget*.

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

- Making investments to spur economic growth,
- Transforming government and responsibly managing spending, and
- Ensuring revenue integrity and addressing the underground economy.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

The government is on track to balance the budget by 2017-18, and remain balanced in 2018-19. For 2015-16, following the panel's advice this means Ontario's deficit has been lowered by \$1.5 billion.

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

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

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

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

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

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

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

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

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Technical Qs&As

- What issue does this report address?

The panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's 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 of Ontario during the 2015-16 Public Accounts audit.

- What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly sponsored plans (Ontario Teachers' Pension Plan and Ontario Public Service Employees' Pension Plan) should be recognized in Ontario's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly sponsored pension plans should continue to be recognized in the Province's financial statements as they have been since 2001 when the accounting standard was first adopted.

- What resources were used to arrive at this conclusion?

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

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. 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.

- The report supports Ontario's interpretation of the public sector accounting standards. Why?

The report agrees with the Province's application of the public sector accounting standards regarding the recording of the net pension assets for the jointly sponsored plans. The panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

In addition, the panel agrees with the Province's conclusion that no reduction in value is required for either of the assets.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

- The report disagrees with the Auditor General's interpretation of the public sector accounting standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly sponsored pension plans. The panel does not specifically address the Auditor General's interpretation of public sector accounting standards; however, its conclusions differ from the AG based on its assessment and understanding of the facts.

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

- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Financial Reporting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issues. The panel's reference to recent Canadian standard setter guidance, and international standards is appropriate in this circumstance.

- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

- Why is there a supplemental report to review other pension assets like the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan?

The plans (HOOPP and CAATPP) are multiemployer pension plans, and may move into a net pension asset position in the future. The government felt it was prudent to also review the accounting for this potential situation now given these plans differ in structure from the jointly sponsored pension plans that were the subject of the disagreement between the professional staff and the Auditor General.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

The Province will continue to review its accounting treatment as Public Sector Accounting Board standards change in the future.

- The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province 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 would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

- What does it mean that a future benefit is available to the government?

Assets embody future economic benefits that allow a government to achieve its 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.

- Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards of the plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan. The contractual arrangements for the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Pension Plan 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.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under public sector accounting standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The Province does not have unilateral control but does have control over its portion of the net pension asset either directly for the Ontario Public Service Employees' Pension Plan or via a veto for the Ontario Teachers' Pension Plan. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.

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Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 9, 2017

Key Messages:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans.
- The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The government is accepting the panel's recommendations, which will inform the preparation of the Province's future financial statements.
- For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately. We are on track to balance the Budget by 2017-18, and remain balanced in 2018-19.

Prior to February 13 - Holding messaging for reactive use only:

- I can confirm that we have received the report from the Pension Asset Expert Advisory Panel.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- It is unfortunate the report has been made public before the government could prepare it for public release.
- The government has every intention of formally releasing the full report to the public as soon as possible.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

If responding to stakeholder/public comment:

- We are disappointed that stakeholders are commenting on a report that has been made public before the government could properly prepare it for release.
- As I said, I can confirm that we have received the panel's final report.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- The government has every intention of formally releasing the full report to the public as soon as possible.

Contents:

1. Top Media Qs&As:

- It sounds like the government is fighting with the Auditor General again. What do you say to this? (page 3)
- Are you saying the Auditor General is wrong? (page 3)
- This doesn't pass the smell test. Why should an average person on the street believe the government over an independent officer of the legislature? (page 4)
- The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond? (pages 4-5)
- The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it? (page 5)
- The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that? (page 5)
- What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math. (page 6)
- What does this mean for the upcoming Budget? (page 6)
- What will the government do if the Auditor General does not accept the panel's recommendations? (page 6)
- Is the government going to restate the 2015-16 Public Accounts? (page 7)
- Will you continue to accept qualified opinions in the future? (page 7)
- The Auditor General says she also has a number of accounting opinions supporting her position. How do you respond to that? (page 7)

2. Pension Asset Expert Advisory Panel and its report (page 8-10)

3. Auditor General (page 10)

4. 2015-16 Public Accounts (pages 11-12)

5. Deloitte (page 12)

6. Broader Public Sector Executive Compensation Act (pages 12-13)

7. Jointly sponsored plans and accounting standards (page 13-14)

8. Ontario's financial position (pages 14-15)

9. Technical Qs&As (pages 16-18)

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Top Media Qs&As:

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

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

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

If asked to explain the history of this issue:

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

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

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

The government will continue to move forward and present Ontario's finances fairly and accurately.

2. Are you saying the Auditor General is wrong?

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

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

3. This doesn't pass the smell test. Why should an average person on the street believe the government over an independent officer of the legislature?

Look, it's clear there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

Prior to implementing the Auditor's change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

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

The government is accepting the expert panel's recommendations, which will inform the preparation of the Province's future financial statements.

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

The government has a responsibility to get the best advice it can to inform decision-making.

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

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

- **Tricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 since 2007,
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

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

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

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

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

As a result of the independent panel's expert assessment, we now have additional advice on how public sector accounting standards are interpreted as they apply to jointly sponsored pension assets. We thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

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

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

That is simply not true.

For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.

8. What does this mean for the upcoming Budget?

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

We are on track to balance the budget by 2017-18, and remain balanced in 2018-19. We will provide a full update on Ontario's fiscal situation in the near future.

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

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

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

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

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

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

If pressed:

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

We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

Our intention is to prepare future financial statements based on the panel's advice.

The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

If pressed:

We will not re-issue the 2015-16 Public Accounts, but in preparing the 2016-17 Public Accounts, we will follow the advice of the panel and also restate the 2015-16 comparative balances in that document to reflect that advice.

In addition, in other fiscal documents such as quarterly updates or budget documents, the 2015-16 balances will reflect the panel's advice.

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

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

What I can say is we will continue to move forward and present Ontario's finances fairly and accurately. We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

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

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

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

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

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it.

In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Pension Asset Expert Advisory Panel and its report

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

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

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

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

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

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

Ontario remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

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

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

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

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

15. How did the panel reach its conclusions?

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

16. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and public sector accounting standards.

The panel included:

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

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

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

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

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

IF ASKED ABOUT PAUL MARTIN:

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

18. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

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

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

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

20. How long have you had the report?

The panel submitted its final report to the government in early February. A draft report was submitted late January. We used this time to analyze the recommendations, and consult with key stakeholders, including the Auditor General.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

The government has a responsibility to get the best advice it can to inform decision-making.

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

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

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

Auditor General

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

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

24. Do you think the Auditor General is being political in how she's handling this issue?

I can tell you that the government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

2015-16 Public Accounts

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

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

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

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

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

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

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

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

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

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

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

I'm not an accountant. But at a high level I can tell you that when it comes to dealing with a surplus in a jointly sponsored pension plan, the panel found that:

1. an asset does exist

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

2. that asset should be recognized on the Province's books, and
3. unilateral control is not necessary to do so.

In fact, the panel noted that, by their very nature, unilateral control can't exist in joint pension plans because it is a joint arrangement. The sponsors jointly control the asset and must agree on how it will be used.

Deloitte

28. Media are reporting that Deloitte also provided you with advice, which you paid for. Was that advice biased, or were you in a conflict of interest because Ontario's chief controller used to work there?

Absolutely not.

Deloitte is a highly-reputable international accounting firm. They provided an objective accounting opinion, just as they would for any client. Their report was prepared using professional standards as set out by the Chartered Professional Accountants of Canada.

If you have further questions about Deloitte and how they approach their work, I would encourage you to contact them for comment.

29. It has been implied that your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

Broader Public Sector Executive Compensation Act

30. On one hand you're saying you're committed to balancing the budget. But on the other hand you're allowing massive pay increases at agencies like OPG and Metrolinx. How do you reconcile the two?

Affected salaries have been frozen across Ontario since 2012. Work is underway by our broader public sector organizations to establish salary caps based on appropriate comparisons to similar organizations.

As the Premier made clear last week, some proposed salary caps were completely unacceptable. While these proposed salary caps are **not** final salaries at this point, last week I issued a memo to remind employers about our expectations:

- Compensation programs will be modest, with low annual percentage increases.
- If the frameworks are not compliant with the regulation, we will direct the sector to redo the framework.

Media Questions and Answers

Pension Asset Expert Advisory Panel Report

- Employers will work with their overseeing ministries to ensure that salary caps are managed in a way that is fair and understood by the public.
- Once compliant frameworks are in place, we will monitor their implementation closely and will reject any salaries that we believe to be unacceptable.
- Employers will aim to provide the greatest transparency and information possible in their proposals.
- Employers will post their public consultations in a prominent place on their website.

The government is closely monitoring the rollout of this initiative and will take necessary action should an employer fail to develop a compliant compensation program.

Through this process, I expect that executive salaries will be reasonable and publicly defensible. If the government does not believe that standard is met, we will take further action to ensure that public dollars are spent in the public interest.

It is very clear that in some cases the upper end of proposed salaries are unreasonably high, and could potentially lead to unacceptable salary increases. That is why we have reminded employers of that, **and in cases where employers fail to comply, we will refuse salary increases.**

Every dollar of public money should be spent with good intention and consideration, and we will focus on ensuring that happens. It's what Ontarians expect.

Jointly sponsored plans and accounting standards

31. What is a jointly sponsored pension plan?

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

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

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

32. How do Ontario's plans compare to other jurisdictions, such as New Brunswick and British Columbia?

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

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional expert advice on how

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

public sector accounting standards should be interpreted as they apply to jointly sponsored pension plans in Ontario.

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

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

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

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

Ontario's Financial Position

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

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

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

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

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

Even after adopting the Auditor General's interpretation of jointly sponsored pension plans in the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

The government continues to project a balanced budget by 2017-18 and to remain balanced in 2018-19, consistent with the *2016 Budget*.

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

- Making investments to spur economic growth,
- Transforming government and responsibly managing spending, and
- Ensuring revenue integrity and addressing the underground economy.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

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

The government is on track to balance the budget by 2017-18, and remain balanced in 2018-19. For 2015-16, following the panel's advice this means Ontario's deficit has been lowered by \$1.5 billion.

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

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

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

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

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

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

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

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

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

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

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Technical Qs&As

- What issue does this report address?

The panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's 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 of Ontario during the 2015-16 Public Accounts audit.

- What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly sponsored plans (Ontario Teachers' Pension Plan and Ontario Public Service Employees' Pension Plan) should be recognized in Ontario's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly sponsored pension plans should continue to be recognized in the Province's financial statements as they have been since 2001 when the accounting standard was first adopted.

- What resources were used to arrive at this conclusion?

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

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. 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.

- The report supports Ontario's interpretation of the public sector accounting standards. Why?

The report agrees with the Province's application of the public sector accounting standards regarding the recording of the net pension assets for the jointly sponsored plans. The panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

In addition, the panel agrees with the Province's conclusion that no reduction in value is required for either of the assets.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

- The report disagrees with the Auditor General's interpretation of the public sector accounting standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly sponsored pension plans. The panel does not specifically address the Auditor General's interpretation of public sector accounting standards; however, its conclusions differ from the AG based on its assessment and understanding of the facts.

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

- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Financial Reporting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issues. The panel's reference to recent Canadian standard setter guidance, and international standards is appropriate in this circumstance.

- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

- Why is there a supplemental report to review other pension assets like the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan?

The plans (HOOPP and CAATPP) are multiemployer pension plans, and may move into a net pension asset position in the future. The government felt it was prudent to also review the accounting for this potential situation now given these plans differ in structure from the jointly sponsored pension plans that were the subject of the disagreement between the professional staff and the Auditor General.

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

The Province will continue to review its accounting treatment as Public Sector Accounting Board standards change in the future.

- The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province 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 would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

- What does it mean that a future benefit is available to the government?

Assets embody future economic benefits that allow a government to achieve its 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.

- Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards of the plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan. The contractual arrangements for the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Pension Plan 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.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under public sector accounting standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The Province does not have unilateral control but does have control over its portion of the net pension asset either directly for the Ontario Public Service Employees' Pension Plan or via a veto for the Ontario Teachers' Pension Plan. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.

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1. Will you be providing the Auditor General proof “in writing” from the unions that they are okay with the government booking the surpluses a public asset for accounting purposes?

This was one of the ~~central~~ issues on which the panel was asked to provide advice and recommendations to the government. They concluded that the government does not need a letter from either of the unions because the joint pension agreements provides direction on spell-out how the surplus will be dealt with. The contractual arrangements for the Ontario Teachers’ Pension Plan and the Ontario Public Service Employees’ Pension Plan articulateset-out how ~~that~~ shared control is exercised, including how surpluses and deficits are dealt with.

They panel also concluded that there are no public sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place.

Commented [NT1]: I suggest removing this. I don’t think we this specific.

2. In the Ontario Teacher’s Pension Plan Annual Report, CEO Ron Mock states that there are “flashing yellow caution signals”. The Auditor General says the Ontario Teacher’s Pension Plan financial statements show a liability position. So why is Ontario counting the Ontario Teachers’ Pension Plans as a surplus?

Since 2001, the Province has reported a pension expense in each year from the Ontario Teacher’s Pension Plan.

However, the province has reported a net pension asset of the Ontario Teachers’ Pension Plan each year since fiscal 2001-2002. The net pension asset is impacted each year by both the Province’s contributions to the plan, ~~and~~ the income or expense in the plan, and the benefits provided under the plan.

3. How is Ontario going spend the surplus? Can it be used for other purposes other than pensions such as electricity rebates or school capital projects? Can this \$1.5 Billion windfall be used to build roads?

The province does not intend or have the ability to withdraw assets from either the Ontario Teachers’ Pension Plan or the Ontario Public Service Employees’ Pension Plan.

The only potential use for this money other than providing pensions is to potentially reduce member contributions for a period of time – what is known as a pension contribution holiday. However, this can only be done with the agreement of both plan sponsors.

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

4. How does this compare to British Columbia, New Brunswick and the TTC?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

Commented [EKO2]: Pulled from Public Accounts media Qs

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Commented [NT3]: Not sure where this information came from. I don't know if we want to be this specific.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Maybe just say – The accounting treatment for potential net assets is evaluated based on each pension plan's contractual arrangement.

5. What happens next?

Our intention is to prepare ~~future~~ the province's financial statements based on the panel's advice.

The panel's report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be

recognized in Ontario's financial statements. It also concluded that the government does have control ~~controls access~~ to the pension surplus and which has ~~has~~ a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position.

Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

We will continue to move forward and present Ontario's finances fairly and accurately. We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

2 - Email - February 1 2017 - FW_ Expert Panel - Report Release - Q&As.pdf

From: Tam, Nelson (TBS)
To: [Hosick, Sarah \(TBS\) \(Sarah.Hosick@ontario.ca\)](mailto:Sarah.Hosick@ontario.ca)
Subject: FW: Expert Panel - Report Release - Q&As
Date: February-01-17 12:11:00 PM
Attachments: [RE PAEAP Comms Status Update.msg](#)

Sarah

See attached email. Original was sent to Cindy, Nadine and DMO for comments.
The response string from Nadine was only to Communications.

Thanks

Nelson
X20514

From: Ovenden, Erin (TBS)
Sent: February-01-17 12:07 PM
To: Tam, Nelson (TBS)
Cc: Jackson, Sarah (TBS)
Subject: RE: Expert Panel - Report Release - Q&As

Hi Nelson-

Bryant sent all the products to both Nadine and Cindy over the weekend. Nadine provided us with her comments and edits to the Qs (see attached email). The email is a little confusing because the Qs are being called NR. Please disregard that typo.

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: Tam, Nelson (TBS)
Sent: February-01-17 12:00 PM
To: Ovenden, Erin (TBS)
Subject: Expert Panel - Report Release - Q&As

Erin

We've seen the NR and TBS Minister statement. It is in the approval process.

Associate DM is asking about the status of the Q&As. Are these completed? If yes, can you send them to me for review.

Thanks

Nelson
X20514

RE_ PAEAP Comms Status Update.pdf

From: Petsche, Nadine (TBS) []
To: Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]
CC: Jackson, Sarah (TBS) [Sarah.Jackson@ontario.ca]; Ovenden, Erin (TBS) [Erin.Ovenden@ontario.ca]; Miller, Amanda (TBS) [Amanda.Miller@ontario.ca]
Subject: RE: PAEAP Comms Status Update
Date: Sunday, January 29, 2017 23:18:18
Attachment 1: image001.jpg
Attachment 2: PAEAP Report Release_NR_v4_20170128 (BS) (current version)np.docx

Hi Bryant.

Thanks for sharing the drafts. Attached are my comments on the NR. Will review the remaining items tomorrow.

N

From: Sullivan, Bryant (TBS)
Sent: January-29-17 5:07 PM
To: Petsche, Nadine (TBS)
Cc: Jackson, Sarah (TBS); Ovenden, Erin (TBS); Miller, Amanda (TBS)
Subject: RE: PAEAP Comms Status Update

Hi Nadine, here's the draft news release, Minister's statement and media Qs for your review.

Thanks

Bryant

From: Petsche, Nadine (TBS)
Sent: January-29-17 3:07 PM
To: Sullivan, Bryant (TBS)
Subject: RE: PAEAP Comms Status Update

Hi Bryant.

If you can share the docs that you'll need reviewed by OPCD today I can look at them

now. My week days are normally quite crammed and I wouldn't want my availability to delay feedback. N

From: Sullivan, Bryant (TBS)

Sent: January-29-17 2:57 PM

To: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Simone, Nicole (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)

Cc: Miller, Amanda (TBS); Jackson, Sarah (TBS); Ovenden, Erin (TBS)

Subject: PAEAP Comms Status Update

Hi all, I wanted to provide you with a quick update on the status of communications planning as we head into this week.

Logistics:

- We received some further direction from MO on Friday re. the comms rollout.

- We're still tracking towards a Feb. 13 release. No decision has been made about a press conference, but we've been asked to prepare for two scenarios:
 - o News conference – Panel holds embargoed pre-briefings (opposition followed by media) to present findings of report and answer media q's in Queen's Park Media Studio. Minister Sandals and Sousa would then hold a news conference to provide an official response to the report and next steps (either in the Media Studio or location close to the Caucus retreat)

 - o No news conference – Report is posted online, statements from Minister Sandals and Sousa are released, panel and ministers are available for comment

- We've also added a third option following preliminary discussions with OPCD and

MOF comms, which is to combine the announcement with the release of MOF's Q3 Report.

- We've updated our communications scenarios document and production calendar accordingly (attached for your reference). I'll also be sharing these two products with MO today.

Products:

- We've prepared drafts of a number of communications products.
- We'll share these products with OPCD tomorrow so we can start getting them through approvals:
 - o News release
 - o Statement for Minister Sandals
 - o Media Qs&As
 - o Holding messaging

Thanks, and let me know if you have any questions.

Bryant

Bryant Sullivan, APR

Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

(c) 647-330-5784

(e) Bryant.J.Sullivan@ontario.ca

http://intra.net.gov.on.ca/tbs/files/2014/07/TBS-logo_RGB_61-x-25px.jpg

Communications Branch

Your Strategic Partner

image001.pdf

TBS

PAEAP Report Release_NR_v4_20170128 (BS) (current version)np.pdf

Questions and Answers Pension Asset Expert Advisory Panel Report

Confidential DRAFT

January 28, 2017

KEY MESSAGES:

- We thank the members of the Pension Asset Expert Advisory Panel for their work on the complex and significant issues related to pension accounting.
- We are pleased that, after careful consideration of the facts, the independent panel has concluded that the Province's historical accounting treatment for net pension assets of our jointly sponsored pension plans was appropriate, and that's deliberations agrees with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have been for the past 14 years.
- The Panel's advice has been shared with the Auditor General and we look forward to will help inform discussions with the Auditor General in the hopes of reaching as we work toward agreement on how the accounting standard agreement on the appropriate accounting on this year's and is applied to future financial statements.
- The Panel's recommendations have been particularly helpful in clarifying y how public sector accounting standards established by CPA Canada's Public Sector Accounting Boards apply to joint defined are interpreted as they apply to pension assets plans.
- Ontario is committed financial reporting that reflects the economic substance of the Province's financial position and activities. The Province will to accept acting on all of the Panel's recommendations.
- Future financial reports, including the 2017 Budget, will reflect accounting for the Province's jointly sponsored pension plans consistent with the panel's advice. We will prepare future financial statements based on the panel's advice.
- The Province remains. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

Commented [NP1]: Results for hoopp and catpp will still be outstanding.

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Commented [NP2]: Any mention to the reg in place for the last PA and how it was applicable only to the one year? That future results will not be based on regulated accounting and will instead align with the Province's historical accounting treatment?

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QUESTIONS & ANSWERS:

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

After considering the facts related to the Province's two jointly sponsored pension plans, The the Panel panel agrees with the government's view that the net pension assets should be reported as assets in the should be recognized in the pP Province's financial statements.

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

The interpretation and application of accounting standards Pension accounting requires the application of professional judgment. The area of pension accounting is particularly complex. Despite best efforts to try to resolve differences in opinion

Questions and Answers Pension Asset Expert Advisory Panel Report

during the 2015/16 Public Accounts audit the concerns, the Province's professional accounting staff and the Auditor General had continued to have differences of opinion.

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

Ontario is committed to acting on all of the Panel's-panel's recommendations. We will prepare future financial reports, including the 2017 Budget, -statements based on the panel's advice.

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

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

The results for 2015/16 have been adjusted for comparative purposes in the Q3 document. The reversal of the pension adjustment for 2015-16 lowers the deficit for the year to \$3.5B. Ontario's deficit has been lowered to \$XB, from the \$5B reported in the 2015-16 Public Accounts.

Commented [NP3]: Per LSB, need to be careful here to avoid saying that we are restating the PA number.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel who have closely examined the facts related to the two joint sponsored pension plans, we now have clarification-confirmation on how public sector accounting standards should be interpreted as they apply to the Province's accounting for the two plans. pension-assets.

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

Commented [NP4]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

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

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

We thank the members of the independent panel for their work on this highly complex and significant issue. Their recommendations help clarify how public sector

Questions and Answers

Pension Asset Expert Advisory Panel Report

accounting standards are interpreted as they apply to jointly sponsored pension assets. Ontario is committed to acting on all of their recommendations.

- The Panel's advice has been shared with the Auditor General and we look forward to discussions with the Auditor General in the hopes of reaching agreement on the appropriate accounting on this year's and future financial statements. The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

The ~~Panel~~ panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also met with the Auditor General to discuss their findings, and shared a copy of their report with her office ~~Office~~ before it was released.

Commented [NP5]: Discuss/review/present/briefing? Choice of words may be important. Too late to change their minds. It may be more of a courtesy briefing?

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

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

The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

Commented [NP6]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion, provide input through the Board's due process.

Commented [NP7]: Previous wording was inaccurate. Need to be careful to respect standard setter's neutrality and independence.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice which is consistent with the Province's past accounting treatment.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

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Commented [NP8]: Delete?

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

That is simply not true. For the 2015-16 Public Accounts, the government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

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

Commented [NP9]: Address lack of comparability with BC and NB which the AG held up as comparative and the basis to write of the assets?

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

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 ~~annual-Annual reportReport~~, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for ~~deciding how to apply the accounting standardsensuring its financial results are fairly reported.~~

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

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

Murray Gold, for example, is a leading ~~legal~~ practitioner and senior pension and benefits partner at Koskie Minsky LLP. Uros Karadzic is a ~~senior actuarial partner~~ at ~~EY's-Ernst and Young's~~ People Advisory Services Reward practice, which includes pension, benefit and compensation ~~consulting~~.

Commented [NP10]: Should mention all 4 – Trish and Paul as well. **impt

Per the terms of reference, ~~the province identifiedthe panel was also supported by~~ a small group of civil servants ~~to support the panel and towhich~~ provided information related to the pension plans sponsored by the ~~province-Province~~ of Ontario.

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

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

Questions and Answers Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

~~Since the difference of opinion could not be resolved, the government passed a regulation to allow us to amend our accounting policies to report the net pension assets for joint sponsored pension plans in order to be consistent with the Auditor's assessment of our numbers interpretation of the accounting standards. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.~~

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

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

The ~~Panel~~ panel's report ~~aligns with~~ agrees with the accounting classification of both plans ~~as the Province's position that unilateral control for~~ jointly defined benefit plans ~~is not required in order.~~ The Panel also agrees that ~~the~~ for the net pension assets ~~should to~~ be recognized in the ~~province's~~ Province's financial statements.

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

~~13.~~

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Questions and Answers

Pension Asset Expert Advisory Panel Report

We would like to remind you that the audit opinion for 2015-16 was not qualified, but rather the AG qualified her opinion for the prior year's comparative results which did not reflect the regulated accounting. Also, the Province's previous 22 years of Public Accounts had received clean audit opinions.

The Province remains committed to clear and transparent accounting to the public and other users. We will continue to move forward and present the province's finances fairly and accurately.

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

Commented [NP11]: Delete?

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her. We are hopeful that she will reconsider her position on accounting for the Province's pension plans and concur with the Province's planned accounting treatment.

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

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

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Since it is the Province's plan to accept and act on the panel's recommendations, the Province will plan to reflect the appropriate accounting treatment in our upcoming 2016-17 Public Accounts which would necessitate a restatement of our 2015-16 results for comparative purposes.

No. We don't need to restate the 2015-16 Public Accounts because we passed a time-limited regulation to allow us to amend our accounting policies to be consistent with the Auditor's assessment of our numbers.

We will formally re-state our 2015-16 numbers as part of a future financial statement.

15. What does this mean for the upcoming Budget?

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

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

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

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

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

~~The panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.~~

If asked to explain the history of this issue:

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

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

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

Commented [NP12]: I don't think that they're planning to give an advance copy to PSAB, are they? If so, then they should give an advance copy to SCOPA as well and maybe the FOA.

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

17. Have other jurisdictions faced similar issues?

Yes. Other provinces, including British Columbia, New Brunswick and Saskatchewan have had challenges addressing complex accounting issues related to pension accounting, faced similar issues with respect to Public Accounts. However, it should be pointed out that the terms of the pension plans of NB and BC are quite different than Ontario's and therefore the accounting treatment is quite different.

Commented [NP13]: Refer to report?

Pension accounting is a complex issue. With the help of the unique professional skillsets and perspectives of our the members of independent the independent advisory panel, we now have clarification on how public sector accounting standards are should be interpreted as they apply to pension assets defined benefit pension plans.

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

I would say we have achieved clarity on this complex accounting issue in a responsive and responsible way.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario. We have been impressed with the level of cooperation and understanding of the credit rating agency community both during the 2015-16 Public Accounts process and while we awaited the results of the panel.

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

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

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

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

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

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

Commented [NP14]: Does this belong here?

20. How long have you had the report?

We have had the report since late January. We needed time to analyze the recommendations, and prepare it for public release.

Commented [NP15]: Thought that French translation was the reason for delay (this is the common reason that PSAB uses for delays in issuing docs)

21. Were the panel's recommendations unanimous?

Yes, the Panel's recommendations were unanimous.

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

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

Questions and Answers

Pension Asset Expert Advisory Panel Report

What I will say is that the ~~Panel-panel~~ took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the independent ~~Panelpanel~~ agrees-aligns with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have-had been for the past-prior 14 years.

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

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

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

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have clarification on how public sector accounting standards should be interpreted as they apply to pension assets.

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

24. What is a jointly-sponsored pension plan?

Commented [NP16]: This is a general question

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

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

The Panel:

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

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for defined benefit pension plans. The Panel agrees that the net pension asset should be recognized in the province's financial position.

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

26. Who was on the Panel?

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

Questions and Answers Pension Asset Expert Advisory Panel Report

The Panel included:

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

Commented [NP17]: Include credentials?

27. How much were they paid? What was the total cost spent on this report?

The Chair was compensated at \$2,000 per diem and \$1,900 per diem for the other members:

Commented [NP18]: Except for Paul Martin as noted below

Commented [NP19]: Wouldn't preference be to say that comp is in line with per diems for other professional panels? What if asked how many days/hours they worked? Not sure how much to disclose. How up to date are the records?

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

In total, XXX was paid to panel members in compensation.

Commented [NP20]: TOR goes to Mar 31. Will there be more work? Estimated cost to end of March? Perhaps work will be completed by end of Feb?

IF ASKED ABOUT PAUL MARTIN:

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

Ontario's Financial Position:

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

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

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

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

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

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

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

29. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more

Questions and Answers
Pension Asset Expert Advisory Panel Report

challenging fiscal position. What is the government doing to manage the debt?

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

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

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

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

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

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

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

Legislated Accounting:

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

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

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

Commented [NP21]: Insert ref from CD Howe Report? Mention previous 22 years of clean audit opinions?

2 - Email - January 29 2017 - RE_ PAEAP Comms Status Update.pdf

From: [Petsche, Nadine \(TBS\)](#)
To: [Sullivan, Bryant \(TBS\)](#)
Cc: [Jackson, Sarah \(TBS\)](#); [Ovenden, Erin \(TBS\)](#); [Miller, Amanda \(TBS\)](#)
Subject: RE: PAEAP Comms Status Update
Date: January-29-17 10:18:19 PM
Attachments: [PAEAP Report Release NR v4 20170128 \(BS\) \(current version\)np.docx](#)

Hi Bryant.

Thanks for sharing the drafts. Attached are my comments on the NR. Will review the remaining items tomorrow.

N

From: Sullivan, Bryant (TBS)
Sent: January-29-17 5:07 PM
To: Petsche, Nadine (TBS)
Cc: Jackson, Sarah (TBS); Ovenden, Erin (TBS); Miller, Amanda (TBS)
Subject: RE: PAEAP Comms Status Update

Hi Nadine, here's the draft news release, Minister's statement and media Qs for your review.

Thanks
Bryant

From: Petsche, Nadine (TBS)
Sent: January-29-17 3:07 PM
To: Sullivan, Bryant (TBS)
Subject: RE: PAEAP Comms Status Update

Hi Bryant.

If you can share the docs that you'll need reviewed by OPCD today I can look at them now. My week days are normally quite crammed and I wouldn't want my availability to delay feedback. N

From: Sullivan, Bryant (TBS)
Sent: January-29-17 2:57 PM
To: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Simone, Nicole (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Miller, Amanda (TBS); Jackson, Sarah (TBS); Ovenden, Erin (TBS)
Subject: PAEAP Comms Status Update

Hi all, I wanted to provide you with a quick update on the status of communications planning as we head into this week.

Logistics:

- We received some further direction from MO on Friday re. the comms rollout.
- We're still tracking towards a Feb. 13 release. No decision has been made about a press conference, but we've been asked to prepare for two scenarios:

- o News conference – Panel holds embargoed pre-briefings (opposition followed by media) to present findings of report and answer media q's in Queen's Park Media Studio. Minister Sandals and Sousa would then hold a news conference to provide an official response to the report and next steps (either in the Media Studio or location close to the Caucus retreat)
 - o No news conference – Report is posted online, statements from Minister Sandals and Sousa are released, panel and ministers are available for comment
- We've also added a third option following preliminary discussions with OPCD and MOF comms, which is to combine the announcement with the release of MOF's Q3 Report.
- We've updated our communications scenarios document and production calendar accordingly (attached for your reference). I'll also be sharing these two products with MO today.

Products:

- We've prepared drafts of a number of communications products.
- We'll share these products with OPCD tomorrow so we can start getting them through approvals:
 - o News release
 - o Statement for Minister Sandals
 - o Media Qs&As
 - o Holding messaging

Thanks, and let me know if you have any questions.

Bryant

Bryant Sullivan, APR

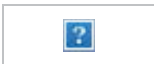
Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

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(e) Bryant.J.Sullivan@ontario.ca



Communications Branch

Your Strategic Partner

PAEAP Report Release_NR_v4_20170128 (BS) (cur.pdf

Questions and Answers Pension Asset Expert Advisory Panel Report

Confidential DRAFT

January 28, 2017

KEY MESSAGES:

- We thank the members of the Pension Asset Expert Advisory Panel for their work on the complex and significant issues related to pension accounting.
- We are pleased that, after careful consideration of the facts, the independent panel has concluded that the Province's historical accounting treatment for net pension assets of our jointly sponsored pension plans was appropriate, and that's deliberations agrees with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have been for the past 14 years.
- The Panel's advice has been shared with the Auditor General and we look forward to will help inform discussions with the Auditor General in the hopes of reaching as we work toward agreement on how the accounting standard agreement on the appropriate accounting on this year's and is applied to future financial statements.
- The Panel's recommendations have been particularly helpful in clarifying y how public sector accounting standards established by CPA Canada's Public Sector Accounting Boards apply to joint defined are interpreted as they apply to pension assets plans.
- Ontario is committed financial reporting that reflects the economic substance of the Province's financial position and activities. The Province will to accept acting on all of the Panel's recommendations.
- Future financial reports, including the 2017 Budget, will reflect accounting for the Province's jointly sponsored pension plans consistent with the panel's advice. We will prepare future financial statements based on the panel's advice.
- The Province remains. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

Commented [NP1]: Results for hoopp and catpp will still be outstanding.

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Commented [NP2]: Any mention to the reg in place for the last PA and how it was applicable only to the one year? That future results will not be based on regulated accounting and will instead align with the Province's historical accounting treatment?

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QUESTIONS & ANSWERS:

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

After considering the facts related to the Province's two jointly sponsored pension plans, The the Panel panel agrees with the government's view that the net pension assets should be reported as assets in the should be recognized in the pP Province's financial statements.

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

The interpretation and application of accounting standards Pension accounting requires the application of professional judgment. The area of pension accounting is particularly complex. Despite best efforts to try to resolve differences in opinion

Questions and Answers

Pension Asset Expert Advisory Panel Report

during the 2015/16 Public Accounts audit the concerns, the Province's professional accounting staff and the Auditor General had continued to have differences of opinion.

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

Ontario is committed to acting on all of the Panel's-panel's recommendations. We will prepare future financial reports, including the 2017 Budget, -statements based on the panel's advice.

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

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

The results for 2015/16 have been adjusted for comparative purposes in the Q3 document. The reversal of the pension adjustment for 2015-16 lowers the deficit for the year to \$3.5B. Ontario's deficit has been lowered to \$XB, from the \$5B reported in the 2015-16 Public Accounts.

Commented [NP3]: Per LSB, need to be careful here to avoid saying that we are restating the PA number.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel who have closely examined the facts related to the two joint sponsored pension plans, we now have clarification-confirmation on how public sector accounting standards should be interpreted as they apply to the Province's accounting for the two plans. pension-assets.

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

Commented [NP4]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

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

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

We thank the members of the independent panel for their work on this highly complex and significant issue. Their recommendations help clarify how public sector

Questions and Answers

Pension Asset Expert Advisory Panel Report

accounting standards are interpreted as they apply to jointly sponsored pension assets. Ontario is committed to acting on all of their recommendations.

- The Panel's advice has been shared with the Auditor General and we look forward to discussions with the Auditor General in the hopes of reaching agreement on the appropriate accounting on this year's and future financial statements. The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

The ~~Panel~~ panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also met with the Auditor General to discuss their findings, and shared a copy of their report with her office ~~Office~~ before it was released.

Commented [NP5]: Discuss/review/present/briefing? Choice of words may be important. Too late to change their minds. It may be more of a courtesy briefing?

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

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

The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

Commented [NP6]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion, provide input through the Board's due process.

Commented [NP7]: Previous wording was inaccurate. Need to be careful to respect standard setter's neutrality and independence.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice which is consistent with the Province's past accounting treatment.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

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Commented [NP8]: Delete?

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

That is simply not true. For the 2015-16 Public Accounts, the government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

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

Commented [NP9]: Address lack of comparability with BC and NB which the AG held up as comparative and the basis to write of the assets?

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

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 ~~annual-Annual reportReport~~, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for ~~deciding how to apply the accounting standardsensuring its financial results are fairly reported.~~

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

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

Murray Gold, for example, is a leading ~~legal~~ practitioner and senior pension and benefits partner at Koskie Minsky LLP. Uros Karadzic is a ~~senior actuarial partner~~ at ~~EY's-Ernst and Young's~~ People Advisory Services Reward practice, which includes pension, benefit and compensation ~~consulting~~.

Commented [NP10]: Should mention all 4 – Trish and Paul as well. **impt

Per the terms of reference, ~~the province identifiedthe panel was also supported by~~ a small group of civil servants ~~to support the panel and towhich~~ provided information related to the pension plans sponsored by the ~~province-Province~~ of Ontario.

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

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

Questions and Answers Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

~~Since the difference of opinion could not be resolved, the government passed a regulation to allow us to amend our accounting policies report the net pension assets for joint sponsored pension plans in order to be consistent with the Auditor's assessment of our numbers interpretation of the accounting standards. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.~~

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

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

The ~~Panel-panel's report aligns with agrees with the accounting classification of both plans as the Province's position that unilateral control for~~ jointly defined benefit plans ~~is not required in order~~. The Panel also agrees that ~~the for the~~ net pension assets ~~should to~~ be recognized in the ~~province's Province's~~ financial statements.

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

~~13.~~

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Questions and Answers

Pension Asset Expert Advisory Panel Report

We would like to remind you that the audit opinion for 2015-16 was not qualified, but rather the AG qualified her opinion for the prior year's comparative results which did not reflect the regulated accounting. Also, the Province's previous 22 years of Public Accounts had received clean audit opinions.

The Province remains committed to clear and transparent accounting to the public and other users. We will continue to move forward and present the province's finances fairly and accurately.

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

Commented [NP11]: Delete?

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her. We are hopeful that she will reconsider her position on accounting for the Province's pension plans and concur with the Province's planned accounting treatment.

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

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

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Since it is the Province's plan to accept and act on the panel's recommendations, the Province will plan to reflect the appropriate accounting treatment in our upcoming 2016-17 Public Accounts which would necessitate a restatement of our 2015-16 results for comparative purposes.

No. We don't need to restate the 2015-16 Public Accounts because we passed a time-limited regulation to allow us to amend our accounting policies to be consistent with the Auditor's assessment of our numbers.

We will formally re-state our 2015-16 numbers as part of a future financial statement.

15. What does this mean for the upcoming Budget?

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

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

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

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

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

~~The panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.~~

If asked to explain the history of this issue:

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

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

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

Commented [NP12]: I don't think that they're planning to give an advance copy to PSAB, are they? If so, then they should give an advance copy to SCOPA as well and maybe the FOA.

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

17. Have other jurisdictions faced similar issues?

Yes. Other provinces, including British Columbia, New Brunswick and Saskatchewan have had challenges addressing complex accounting issues related to pension accounting, faced similar issues with respect to Public Accounts. However, it should be pointed out that the terms of the pension plans of NB and BC are quite different than Ontario's and therefore the accounting treatment is quite different.

Commented [NP13]: Refer to report?

Pension accounting is a complex issue. With the help of the unique professional skillsets and perspectives of ~~our the members of independent~~ the independent advisory panel, we now have clarification on how public sector accounting standards ~~are should be~~ interpreted as they apply to ~~pension assets~~ defined benefit pension plans.

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

I would say we have achieved clarity on this complex accounting issue in a responsive and responsible way.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario. We have been impressed with the level of cooperation and understanding of the credit rating agency community both during the 2015-16 Public Accounts process and while we awaited the results of the panel.

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

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

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

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

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

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

Commented [NP14]: Does this belong here?

20. How long have you had the report?

We have had the report since late January. We needed time to analyze the recommendations, and prepare it for public release.

Commented [NP15]: Thought that French translation was the reason for delay (this is the common reason that PSAB uses for delays in issuing docs)

21. Were the panel's recommendations unanimous?

Yes, the Panel's recommendations were unanimous.

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

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

Questions and Answers

Pension Asset Expert Advisory Panel Report

What I will say is that the ~~Panel-panel~~ took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the independent ~~Panelpanel~~ agrees-aligns with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have-had been for the past-prior 14 years.

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

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

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

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have clarification on how public sector accounting standards should be interpreted as they apply to pension assets.

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

24. What is a jointly-sponsored pension plan?

Commented [NP16]: This is a general question

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

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

The Panel:

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

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for defined benefit pension plans. The Panel agrees that the net pension asset should be recognized in the province's financial position.

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

26. Who was on the Panel?

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

Questions and Answers Pension Asset Expert Advisory Panel Report

The Panel included:

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

Commented [NP17]: Include credentials?

27. How much were they paid? What was the total cost spent on this report?

The Chair was compensated at \$2,000 per diem and \$1,900 per diem for the other members:

Commented [NP18]: Except for Paul Martin as noted below

Commented [NP19]: Wouldn't preference be to say that comp is in line with per diems for other professional panels? What if asked how many days/hours they worked? Not sure how much to disclose. How up to date are the records?

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

In total, XXX was paid to panel members in compensation.

Commented [NP20]: TOR goes to Mar 31. Will there be more work? Estimated cost to end of March? Perhaps work will be completed by end of Feb?

IF ASKED ABOUT PAUL MARTIN:

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

Ontario's Financial Position:

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

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

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

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

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

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

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

29. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more

Questions and Answers
Pension Asset Expert Advisory Panel Report

challenging fiscal position. What is the government doing to manage the debt?

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

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

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

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

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

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

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

Legislated Accounting:

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

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

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

Commented [NP21]: Insert ref from CD Howe Report? Mention previous 22 years of clean audit opinions?

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Questions and Answers Pension Asset Expert Advisory Panel Report

Confidential DRAFT

January 28, 2017

KEY MESSAGES:

- We thank the members of the Pension Asset Expert Advisory Panel for their work on the complex and significant issues related to of pension accounting.
- We are pleased that, after careful consideration of the facts, the independent panel has concluded that the Province's historical accounting treatment for net pension assets of our jointly sponsored pension plans was appropriate, and that's deliberations agrees with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have been for the past 14 years.
- The Panel's advice has been shared with the Auditor General and we look forward to will help inform discussions with the Auditor General in the hopes of reaching as we work toward agreement on how the accounting standard agreement on the appropriate accounting on this year's and is applied to future financial statements.
- The Panel's recommendations have been particularly helpful in clarifying y how public sector accounting standards established by CPA Canada's Public Sector Accounting Boards apply to joint defined are interpreted as they apply to pension assets plans.
- Ontario is committed financial reporting that reflects the economic substance of the Province's financial position and activities. The Province will to accept acting on all of the Panel's recommendations.
- Future financial reports, including the 2017 Budget, will reflect accounting for the Province's jointly sponsored pension plans consistent with the panel's advice. We will prepare future financial statements based on the panel's advice.
- The Province remains. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

Commented [NP1]: Results for hoopp and catpp will still be outstanding.

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Commented [NP2]: Any mention to the reg in place for the last PA and how it was applicable only to the one year? That future results will not be based on regulated accounting and will instead align with the Province's historical accounting treatment?

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QUESTIONS & ANSWERS:

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

After considering the facts related to the Province's two jointly sponsored pension plans, The the Panel panel agrees with the government's view that the net pension assets should be reported as assets in the should be recognized in the pP Province's financial statements.

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

The interpretation and application of accounting standards Pension accounting requires the application of professional judgment. The area of pension accounting is particularly complex. Despite best efforts to try to resolve differences in opinion

Questions and Answers

Pension Asset Expert Advisory Panel Report

during the 2015/16 Public Accounts audit the concerns, the Province's professional accounting staff and the Auditor General had continued to have differences of opinion.

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

Ontario is committed to acting on all of the Panel's-panel's recommendations. We will prepare future financial reports, including the 2017 Budget, -statements based on the panel's advice.

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

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

The results for 2015/16 have been adjusted for comparative purposes in the Q3 document. The reversal of the pension adjustment for 2015-16 lowers the deficit for the year to \$3.5B. Ontario's deficit has been lowered to \$XB, from the \$5B reported in the 2015-16 Public Accounts.

Commented [NP3]: Per LSB, need to be careful here to avoid saying that we are restating the PA number.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel who have closely examined the facts related to the two joint sponsored pension plans, we now have clarification-confirmation on how public sector accounting standards should be interpreted as they apply to the Province's accounting for the two plans. pension-assets.

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

Commented [NP4]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

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

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

We thank the members of the independent panel for their work on this highly complex and significant issue. Their recommendations help clarify how public sector

Questions and Answers

Pension Asset Expert Advisory Panel Report

accounting standards are interpreted as they apply to jointly sponsored pension assets. Ontario is committed to acting on all of their recommendations.

- The Panel's advice has been shared with the Auditor General and we look forward to discussions with the Auditor General in the hopes of reaching agreement on the appropriate accounting on this year's and future financial statements. The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

The ~~Panel~~ panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also met with the Auditor General to discuss their findings, and shared a copy of their report with her office. Office before it was released.

Commented [NP5]: Discuss/review/present/briefing? Choice of words may be important. Too late to change their minds. It may be more of a courtesy briefing?

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

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

The Panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.

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

Commented [NP6]: Insert reference to CD HOWE Report? Insert reference to 22 years of clean audit opinions prior to 2015-16 audit?

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion, provide input through the Board's due process.

Commented [NP7]: Previous wording was inaccurate. Need to be careful to respect standard setter's neutrality and independence.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice which is consistent with the Province's past accounting treatment.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

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Commented [NP8]: Delete?

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

That is simply not true. For the 2015-16 Public Accounts, the government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

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

Commented [NP9]: Address lack of comparability with BC and NB which the AG held up as comparative and the basis to write of the assets?

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

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 ~~annual-Annual reportReport~~, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for ~~deciding how to apply the accounting standardsensuring its financial results are fairly reported.~~

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

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

Murray Gold, for example, is a leading ~~legal~~ practitioner and senior pension and benefits partner at Koskie Minsky LLP. Uros Karadzic is a ~~senior actuarial partner~~ at ~~EY's-Ernst and Young's~~ People Advisory Services Reward practice, which includes pension, benefit and compensation ~~consulting~~.

Commented [NP10]: Should mention all 4 – Trish and Paul as well. **impt

Per the terms of reference, ~~the province identifiedthe panel was also supported by~~ a small group of civil servants ~~to support the panel and towhich~~ provided information related to the pension plans sponsored by the ~~province-Province~~ of Ontario.

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

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

Questions and Answers Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

~~Since the difference of opinion could not be resolved, the government passed a regulation to allow us to amend our accounting policies to report the net pension assets for joint sponsored pension plans in order to be consistent with the Auditor's assessment of our numbers interpretation of the accounting standards. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.~~

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

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

The ~~Panel~~ ~~panel's~~ report ~~aligns with~~ ~~agrees with~~ the accounting classification of both plans ~~as the Province's position that unilateral control for~~ jointly defined benefit plans ~~is not required in order~~. The Panel also agrees that ~~the~~ ~~for the~~ net pension assets ~~should to~~ be recognized in the ~~province's~~ ~~Province's~~ financial statements.

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

~~13.~~

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Questions and Answers

Pension Asset Expert Advisory Panel Report

We would like to remind you that the audit opinion for 2015-16 was not qualified, but rather the AG qualified her opinion for the prior year's comparative results which did not reflect the regulated accounting. Also, the Province's previous 22 years of Public Accounts had received clean audit opinions.

The Province remains committed to clear and transparent accounting to the public and other users. We will continue to move forward and present the province's finances fairly and accurately.

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

Commented [NP11]: Delete?

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her. We are hopeful that she will reconsider her position on accounting for the Province's pension plans and concur with the Province's planned accounting treatment.

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

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

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Since it is the Province's plan to accept and act on the panel's recommendations, the Province will plan to reflect the appropriate accounting treatment in our upcoming 2016-17 Public Accounts which would necessitate a restatement of our 2015-16 results for comparative purposes.

No. We don't need to restate the 2015-16 Public Accounts because we passed a time-limited regulation to allow us to amend our accounting policies to be consistent with the Auditor's assessment of our numbers.

We will formally re-state our 2015-16 numbers as part of a future financial statement.

15. What does this mean for the upcoming Budget?

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

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

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

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

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

~~The panel's advice will help inform discussions with the Auditor General as we work toward agreement on how the accounting standard is applied to future financial statements.~~

If asked to explain the history of this issue:

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

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

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

Commented [NP12]: I don't think that they're planning to give an advance copy to PSAB, are they? If so, then they should give an advance copy to SCOPA as well and maybe the FOA.

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

17. Have other jurisdictions faced similar issues?

Yes. Other provinces, including British Columbia, New Brunswick and Saskatchewan have had challenges addressing complex accounting issues related to pension accounting. However, it should be pointed out that the terms of the pension plans of NB and BC are quite different than Ontario's and therefore the accounting treatment is quite different.

Commented [NP13]: Refer to report?

Pension accounting is a complex issue. With the help of the unique professional skillsets and perspectives of our the members of independent the independent advisory panel, we now have clarification on how public sector accounting standards are should be interpreted as they apply to pension assets defined benefit pension plans.

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

I would say we have achieved clarity on this complex accounting issue in a responsive and responsible way.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario. We have been impressed with the level of cooperation and understanding of the credit rating agency community both during the 2015-16 Public Accounts process and while we awaited the results of the panel.

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

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

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

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

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

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

Commented [NP14]: Does this belong here?

20. How long have you had the report?

We have had the report since late January. We needed time to analyze the recommendations, and prepare it for public release.

Commented [NP15]: Thought that French translation was the reason for delay (this is the common reason that PSAB uses for delays in issuing docs)

21. Were the panel's recommendations unanimous?

Yes, the Panel's recommendations were unanimous.

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

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

Questions and Answers

Pension Asset Expert Advisory Panel Report

What I will say is that the ~~Panel-panel~~ took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the independent ~~Panelpanel~~ agrees-aligns with Ontario's view that net pension assets should continue to be recognized in the province's financial statements as they have-had been for the past-prior 14 years.

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

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

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

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have clarification on how public sector accounting standards should be interpreted as they apply to pension assets.

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

24. What is a jointly-sponsored pension plan?

Commented [NP16]: This is a general question

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

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

The Panel:

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

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for defined benefit pension plans. The Panel agrees that the net pension asset should be recognized in the province's financial position.

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

26. Who was on the Panel?

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

Questions and Answers Pension Asset Expert Advisory Panel Report

The Panel included:

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

Commented [NP17]: Include credentials?

27. How much were they paid? What was the total cost spent on this report?

The Chair was compensated at \$2,000 per diem and \$1,900 per diem for the other members:

Commented [NP18]: Except for Paul Martin as noted below

Commented [NP19]: Wouldn't preference be to say that comp is in line with per diems for other professional panels? What if asked how many days/hours they worked? Not sure how much to disclose. How up to date are the records?

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

In total, XXX was paid to panel members in compensation.

Commented [NP20]: TOR goes to Mar 31. Will there be more work? Estimated cost to end of March? Perhaps work will be completed by end of Feb?

IF ASKED ABOUT PAUL MARTIN:

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

Ontario's Financial Position:

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

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

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

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

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

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

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

29. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more

Questions and Answers
Pension Asset Expert Advisory Panel Report

challenging fiscal position. What is the government doing to manage the debt?

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

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

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

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

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

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

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

Legislated Accounting:

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

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

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

Commented [NP21]: Insert ref from CD Howe Report? Mention previous 22 years of clean audit opinions?

3 - Email - February 2 2017 - RE_ PAEAP Report QA_v7_20170201.pdf

From: Tam, Nelson (TBS)
To: [Hosick, Sarah \(TBS\)](#)
Subject: RE: PAEAP Report QA_v7_20170201
Date: February-02-17 12:28:00 PM
Attachments: [PAEAP Report QA_v8 with OPCD Edits.docx](#)

Sarah

As requested, I left the comments regarding other Ministry review and the comment regarding the AG.

Main changes

- Q26 & 27 was reviewed by the Chair
- The Chair's bio is shortened and reflect her accounting experience.
- The definition of jointly sponsored is replaced with extraction of the definition from the Handbook

Thanks

Nelson
X20514

From: Veinot, Cindy (TBS)
Sent: February-01-17 7:59 PM
To: Hosick, Sarah (TBS)
Cc: Tam, Nelson (TBS)
Subject: PAEAP Report QA_v7_20170201

My edits.

Nelson – there is a bullet on each member -- the bullet on Trish should highlight her accounting expertise – can you edit please from her resume.

Thanks,

PAEAP Report QA_v8 with OPCD Edits.pdf

Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

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

QUESTIONS & ANSWERS:

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

3. Are you saying the Auditor General is wrong?

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

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. We believe the Panel's advice is consistent with Public Sector Accounting Standards.

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

Commented [CV1]: Where did she use the term "creative"

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

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

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

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

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

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

- Tricia O'Malley is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board (AcSB), and was a member of the International Accounting Standards Board (IASB) from 2001.
- Murray Gold is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
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Per the terms of reference, the panel was also supported by a small group of civil servants which provided information related to the pension plans sponsored by the Province of Ontario.

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

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

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

16. What does this mean for the upcoming Budget?

Commented [CV2]: For MOF to confirm

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

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

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

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

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

If asked to explain the history of this issue:

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

Commented [CV3]: For OFA to review.

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

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

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

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

Commented [CV4]: No comment on this one – assuming someone else is reviewing.

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

20. How long have you had the report?

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

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

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

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

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

The 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.

The panel:

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

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

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

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

27. How did the panel reach its conclusions?

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

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

28. Who was on the panel?

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

The panel included:

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

IF ASKED ABOUT PAUL MARTIN:

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

Ontario's Financial Position:

Commented [CV5]: Assuming MOF/OFA is confirming this content

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

challenging fiscal position. What is the government doing to manage the debt?

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

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

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

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

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

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

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

Legislated Accounting:

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

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

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

QUESTIONS & ANSWERS:

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

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

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

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

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

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

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

Commented [CV1]: This seems out of place regarding the question?

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

3. Are you saying the Auditor General is wrong?

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

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

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

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

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

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

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

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

The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review [their findings](#).

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

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Commented [JS(2)]: Reminder: include DM's outreach, if needed.

Commented [CV3]: I think it will be important to reference the outreach from the Ministry to the AG

Questions and Answers

Pension Asset Expert Advisory Panel Report

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

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

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. [We believe the Panel's advice is consistent with Public Sector Accounting Standards.](#)

[We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.](#)

Commented [CV4]: Seems out of place in the context of the question.

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

Commented [CV5]: Where did she use the term "creative"

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

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

Pension accounting is a complex issue. [Extensive research and analysis has been done internally comparing Ontario's plans to other jurisdictions. Provinces including British Columbia, New Brunswick and Saskatchewan have also had challenges addressing accounting issues related to pension accounting.](#) It should be pointed out

Commented [JS(6)]: Fact-check needed.

Questions and Answers

Pension Asset Expert Advisory Panel Report

that the terms of the pension plans for New Brunswick and British Columbia are quite different than Ontario's; therefore the accounting treatment is different.

Commented [NP7]: Refer to report?

Commented [JS(8)]: OPCD – can we say more about the findings in the report? What about Saskatchewan?

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Commented [CV9]: This is not the bullet that we want to highlight – we want to highlight her accounting expertise – Nelson – can you replace with a more appropriate bullet

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Questions and Answers
Pension Asset Expert Advisory Panel Report

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Pension Asset Expert Advisory Panel Report

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Questions and Answers

Pension Asset Expert Advisory Panel Report

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[We will formally re-state our 2015-16 numbers in our upcoming 2016-17 Public Accounts. We plan to restate these amounts in the 2016-17 Public Accounts so that the net pension assets are presented on a consistent basis.](#)

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

If asked to explain the history of this issue:

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

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

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

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

20. How long have you had the report?

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

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

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

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

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

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

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

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

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

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

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

Questions and Answers Pension Asset Expert Advisory Panel Report

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

Commented [CV13]: Where is this definition from?

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

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

The panel:

Commented [CV14]: Have these Q&As on the panel been vetted with the Chair?

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

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for defined benefit pension plans. The panel agrees that the net pension asset should be recognized in the Province's financial position.

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

27. How did the panel reach its conclusions?

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

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

28. Who was on the panel?

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

The panel included:

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

IF ASKED ABOUT PAUL MARTIN:

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

Ontario's Financial Position:

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

Legislated Accounting:

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

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

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

QUESTIONS & ANSWERS:

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

3. Are you saying the Auditor General is wrong?

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

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. We believe the Panel's advice is consistent with Public Sector Accounting Standards.

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

Commented [CV1]: Where did she use the term "creative"

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

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

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

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

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public

Questions and Answers
Pension Asset Expert Advisory Panel Report

sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

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

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

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

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

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

Reducing member contributions is something that would require discussion and agreement between both plan sponsors. In addition, the complexity of pension accounting includes that valuations completed for decisions related to contributions, which are often referred to as funding valuations, are different from those prepared for the province's financial statements.

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

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

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

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

16. What does this mean for the upcoming Budget?

Commented [CV2]: For MOF to confirm

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

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

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

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

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

If asked to explain the history of this issue:

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

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

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

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

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Questions and Answers
Pension Asset Expert Advisory Panel Report

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

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

The 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.

The panel:

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

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

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

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

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

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The panel included:

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

IF ASKED ABOUT PAUL MARTIN:

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

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- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
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31. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more

Questions and Answers
Pension Asset Expert Advisory Panel Report

challenging fiscal position. What is the government doing to manage the debt?

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

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

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

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

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

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

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

Legislated Accounting:

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

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

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

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

3A - Email - February 2 2017 - RE_ Expert Panel - Q&A.pdf

From: [Patricia O'Malley](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: RE: Expert Panel - Q&A
Date: February-02-17 11:35:08 AM

[See below.](#)

From: Tam, Nelson (TBS) [mailto:Nelson.Tam@ontario.ca]
Sent: 2-Feb-17 11:12
To: Patricia O'Malley (plomalley@outlook.com) <plomalley@outlook.com>
Subject: Expert Panel - Q&A

Patricia

Below are the Q&A as discussed. Please review and provide any edits for later on this afternoon/evening.

Thanks

Nelson
416-212-0514

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

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

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

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

2. How did the panel reach its conclusions?

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

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

4 - Email - February 6 2017 - FW_ PAEAP_ DMO Request for Technical Q & A.pdf

From: [Hosick, Sarah \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: FW: PAEAP: DMO Request for Technical Q & A
Date: February-06-17 3:17:47 PM

Hi Nelson,

Can you please begin to pull this request together?

Happy to discuss

Thanks
Sarah

From: Ovenden, Erin (TBS)
Sent: February-06-17 3:16 PM
To: Hosick, Sarah (TBS)
Cc: Miller, Amanda (TBS); Sullivan, Bryant (TBS)
Subject: PAEAP: DMO Request for Technical Q & A

Hi Sarah-

In addition to the Media Qs, DMO is requesting a technical Q & A document be drafted for the PAEAP Report. They would like this document to focus on what the Report's findings from a technical perspective (see email below). We feel that the lead for this would be OPCD, with Comms' support. Over the past few weeks a lot of qs have already been drafted that you might be able to pull together into this new document for the DMO.

Here are a few questions you can use as a starting point. In a few places, I've plunked in draft responses provided by Nadine last week:

- What issue does this report address?
 - What is the report's conclusion?
 - What resources were used to arrive at this conclusion?
 - The report supports Ontario's interpretation of the PSAS standards. Why?
 - The report disagrees with the Auditor General's interpretation of the PSAS standards. Why?
 - Is the report's conclusion based on an accounting standard that hasn't come into effect yet?
- The Province appreciates the thoroughness of the Panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance. Not every possible situation can be addressed by accounting standards. In such cases, it is important to reference the conceptual framework and other standards which may provide guidance. The supplementary sources referenced by the Panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered.*
- The panel used a different methodology from Ontario to arrive at their conclusion. How do the

methodologies differ and is the conclusion different?

The findings of the Panel are consistent with the position taken by the government during the 2015-16 Public Accounts and for the previous 14 years. Although the Panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government would report on its books, the end result is the same and supports the government's historical accounting for pensions.

- Why is there a supplemental report to review other pension assets like HOOP and CAATTPP?

The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the province's books at this time.

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: Nelson, Dane (TBS)

Sent: February-06-17 12:47 PM

To: Ovenden, Erin (TBS)

Cc: Sullivan, Bryant (TBS); Miller, Amanda (TBS); Simone, Nicole (TBS); MacIntyre, Kyle (TBS)

Subject: FW: APPROVAL: PAEAP Report: Draft Products

Hi Erin,

Thank you for sharing the Asset Panel report products. Please find comments from KM attached for your review. Also, is there a technical Q&A prepared (not necessarily for Minister consumption)? If there isn't, can we have folks develop some? See below. There really isn't a Q&A on what the Panel actually said from a more technical perspective:

- Asset exists; future benefit is available to government as contribution reductions and to employee sponsors as either contribution reductions or benefit improvements under terms of plan.
- expected future benefit under the standard can exist without a unilateral legally enforceable right to reduce future contributions
- Unilateral control not necessary for asset recognition, in fact cannot exist in JDBPs; Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit – each sponsor essentially has a veto
- each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Regards,

Dane Nelson, Senior Policy Advisor

Treasury Board Secretariat | Deputy Minister's Office

Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

5 - Email - February 7 2017 - FW_ Panel Members' Availability.pdf

From: Tam, Nelson (TBS)
To: [Keates, James \(TBS\)](#)
Subject: FW: Panel Members' Availability
Date: February-07-17 12:42:00 PM
Attachments: [PAEAP DMO Request for Technical Q A.msg](#)
[Technical Q&A.docx](#)
[PAEAP Report QA v8 with OPCD Edits.docx](#)
Importance: High

James

Communications wanted a technical Q&A for the Panel release. I drafted responses to those questions (see attached email). Nadine advised you have been supporting the position paper and Panel report analysis, you may assist in reviewing and updating. Some of the wording is from the panel report, some from a Q&A document that Cindy reviewed (attached), and one or two from scratch.

Your input is greatly appreciated. Once complete, I will share with Nadine before sending to Cindy and then back to Communications.

Please make this a priority for this afternoon.

Thanks

Nelson
X20514

From: Ovenden, Erin (TBS)
Sent: February-07-17 8:24 AM
To: Tam, Nelson (TBS); Sullivan, Bryant (TBS); Hosick, Sarah (TBS)
Cc: DiMuzio, Sofie (TBS)
Subject: RE: Panel Members' Availability
Importance: High

Hi Nelson-

Thanks for the Panel's availability. There's no date decided yet. Stay tuned.

We also need ASAP the Technical Qs doc the DMO asked for yesterday (see attached email). Please add to this list the following Q:

The Auditor General says we should count the deficit of a net pension asset, but not the surplus. Is this accurate?
(please feel free to restate this Q if needed).

Also, please make sure the stakeholder outreach plan is updated.

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: Tam, Nelson (TBS)
Sent: February-07-17 8:14 AM
To: Sullivan, Bryant (TBS); Hosick, Sarah (TBS)
Cc: Ovenden, Erin (TBS); DiMuzio, Sofie (TBS)
Subject: RE: Panel Members' Availability

Bryant

Based on the information I have – Patricia, Uros and Paul are available for this week.

Paul will be leaving for vacation on February 11th.

Patricia and Uros will be available for the briefings next week with Opposition and Media if needed.

Patricia said a teleconference as to the process for the above would be appreciated. Is Communications thinking about Friday?

Patricia is updating the DM and MMP slide decks and should have something today for Uros and my review.

I will be at DM briefing this morning if you have additional questions.

Thanks

Nelson
X20514

From: Sullivan, Bryant (TBS)
Sent: February-06-17 10:48 PM
To: Tam, Nelson (TBS); Hosick, Sarah (TBS)
Cc: Ovenden, Erin (TBS); DiMuzio, Sofie (TBS)
Subject: Panel Members' Availability
Importance: High

Hi Nelson, are the panel members available this week?

I believe you said Murray is in Vietnam, but wondering about Patricia, Uros and Paul.

Need to know first thing.

Thanks
Bryant

Bryant Sullivan, APR
Assistant Director, Corporate Communications

Treasury Board Secretariat
(o) 416-325-1378
(c) 647-330-5784
(e) Bryant.J.Sullivan@ontario.ca



Communications Branch
Your Strategic Partner

PAEAP_DMO Request for Technical Q & A.pdf

From: Ovenden, Erin (TBS) []
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Miller, Amanda (TBS) [Amanda.Miller@ontario.ca]; Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]
Subject: PAEAP: DMO Request for Technical Q & A
Date: Monday, February 06, 2017 16:16:08

Hi Sarah-

In addition to the Media Qs, DMO is requesting a technical Q & A document be drafted for the PAEAP Report. They would like this document to focus on what the Report's findings from a technical perspective (see email below). We feel that the lead for this would be OPCD, with Comms' support. Over the past few weeks a lot of qs have already been drafted that you might be able to pull together into this new document for the DMO.

Here are a few questions you can use as a starting point. In a few places, I've plunked in draft responses provided by Nadine last week:

- What issue does this report address?
- What is the report's conclusion?
- What resources were used to arrive at this conclusion?
- The report supports Ontario's interpretation of the PSAS standards. Why?
- The report disagrees with the Auditor General's interpretation of the PSAS standards. Why?
- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

The Province appreciates the thoroughness of the Panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance. Not every possible situation can be addressed by accounting standards. In such cases, it is important to reference the conceptual framework and other standards which may provide guidance. The supplementary sources referenced by the Panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to

the issue being considered.

- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the Panel are consistent with the position taken by the government during the 2015-16 Public Accounts and for the previous 14 years. Although the Panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government would report on its books, the end result is the same and supports the government's historical accounting for pensions.

- Why is there a supplemental report to review other pension assets like HOOP and CAATTPP?

The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the province's books at this time.

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: Nelson, Dane (TBS)

Sent: February-06-17 12:47 PM

To: Ovenden, Erin (TBS)

Cc: Sullivan, Bryant (TBS); Miller, Amanda (TBS); Simone, Nicole (TBS); MacIntyre, Kyle (TBS)

Subject: FW: APPROVAL: PAEAP Report: Draft Products

Hi Erin,

Thank you for sharing the Asset Panel report products. Please find comments from KM attached for your review. Also, is there a technical Q&A prepared (not necessarily for Minister consumption)? If there isn't, can we have folks develop some? See below. There really isn't a Q&A on what the Panel actually said from a more technical perspective:

- Asset exists; future benefit is available to government as contribution reductions and to employee sponsors as either contribution reductions or benefit improvements under terms of plan.
- expected future benefit under the standard can exist without a unilateral legally enforceable right to reduce future contributions
- Unilateral control not necessary for asset recognition, in fact cannot exist in JDBPs; Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit – each sponsor essentially has a veto
- each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Regards,

Dane Nelson, Senior Policy Advisor

Treasury Board Secretariat | Deputy Minister's Office

Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

Technical Q&A.pdf

What issue does this report address?

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.

What is the report's conclusion?

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

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

What resources were used to arrive at this conclusion?

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

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

The report supports Ontario's interpretation of the PSAS standards. Why?

The report agrees with the province's application of the PSAS standards regarding the recording of the net pension asset. The Panel concluded that an asset exists because a resource exists that has a future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

The report disagrees with the Auditor General's interpretation of the PSAS standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the

independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

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

Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

The Province appreciates the thoroughness of the Panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance. Not every possible situation can be addressed by accounting standards. In such cases, it is important to reference the conceptual framework and other standards which may provide guidance. The supplementary sources referenced by the Panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered.

The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the Panel are consistent with the position taken by the government during the 2015-16 Public Accounts and for the previous 14 years. Although the Panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government would report on its books, the end result is the same and supports the government's historical accounting for pensions.

Why is there a supplemental report to review other pension assets like HOOP and CAATTP?

The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATTP are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the province's books at this time.

The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the province to recognize a liability for its portion of a net pension liability but unable to recognize an asset for its portion of a net pension asset would not faithfully represent

the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors.

What does it mean that a future benefit is available to the government?

Through potential contribution reductions or benefit improvements, the government will have additional resources (cash) to pay for other government priorities that would have been required if no surplus existed.

Please explain in more detail the concept of unilateral control.

In a joint defined benefit plan, the sponsors share the risks and rewards of a defined benefit plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan.

For the OPSEUPP, each sponsor is allocated their portion of the net pension asset or liability. In a net pension asset situation, each sponsor decides how to use the net asset without the consent of the other sponsor.

For the OTPP, each sponsor must agree jointly on how the net pension asset is used. No sponsor can make decisions without the consent of the other sponsor.

The province does not have unilateral control but does have control over its portion of the net pension asset either directly in OPSEUPP or via a veto in OTPP.

PAEAP Report QA_v8 with OPCD Edits_1.pdf

Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

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

QUESTIONS & ANSWERS:

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

3. Are you saying the Auditor General is wrong?

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

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. We believe the Panel's advice is consistent with Public Sector Accounting Standards.

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

Commented [CV1]: Where did she use the term "creative"

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

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

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

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

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public

Questions and Answers
Pension Asset Expert Advisory Panel Report

sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

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

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

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

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

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

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

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

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

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

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

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

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

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

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

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

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

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

Reducing member contributions is something that would require discussion and agreement between both plan sponsors. In addition, the complexity of pension accounting includes that valuations completed for decisions related to contributions, which are often referred to as funding valuations, are different from those prepared for the province's financial statements.

Questions and Answers
Pension Asset Expert Advisory Panel Report

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

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

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

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

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

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

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

15. Is the government going to restate the 2015-16 Public Accounts?

The 2015-16 Public Accounts were issued and reflected the regulated accounting treatment which was applicable to that year only.

We plan to restate these amounts in the 2016-17 Public Accounts so that the net pension assets are presented on a consistent basis.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Questions and Answers
Pension Asset Expert Advisory Panel Report

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.

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Questions and Answers
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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.

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The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

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Questions and Answers
Pension Asset Expert Advisory Panel Report

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The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

32. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

33. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

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Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

QUESTIONS & ANSWERS:

1. In layman's terms what does the report mean?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for two jointly-sponsored pension plans - the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General had differences of opinion.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

Ontario is committed to acting on all of the panel's recommendations. We will prepare future financial statements based on the panel's advice.

Questions and Answers
Pension Asset Expert Advisory Panel Report

2. What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

4. The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's recommendations provide additional advice on how public sector accounting standards are interpreted as they apply to jointly-sponsored pension assets and we thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

We have also shared the panel's advice with the Auditor General and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

5. Have you spoken to the Auditor General about the panel's findings?

The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review their findings. Also, the Ministry spoke with the Auditor General after the Panel's briefing to discuss the panel's findings.

6. What will the government do if the Auditor General does not accept the panel's recommendations?

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financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will provide input through the process set out by the board.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. We believe the Panel's advice is consistent with Public Sector Accounting Standards.

7. The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?

Commented [CV1]: Where did she use the term "creative"

That is simply not true. For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

If pressed about Ontario's plans compared to other jurisdictions:

Pension accounting is a complex issue. Research and analysis has been done internally comparing Ontario's plans to other jurisdictions. It should be pointed out that the pension plans for New Brunswick and British Columbia are different than Ontario's; therefore the accounting treatment is different.

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public

Questions and Answers
Pension Asset Expert Advisory Panel Report

sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality reporting.

8. The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards:

- Tricia O'Malley is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board (AcSB), and was a member of the International Accounting Standards Board (IASB) from 2001.
- Murray Gold is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- Uros Karadzic is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and
- Paul Martin is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

Per the terms of reference, the panel was also supported by a small group of civil servants which provided information related to the pension plans sponsored by the Province of Ontario.

9. The Auditor General says she has a number of accounting opinions supporting her position. How do you respond to that?

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it. In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

The government has been fully transparent about the Pension Asset Expert Advisory Panel and how it arrived at its conclusions.

Questions and Answers
Pension Asset Expert Advisory Panel Report

10. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province's fiscal results.

11. How did the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would have impacted the Province's accounting for net pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, according to the Auditor General, where there was no agreement in place to the contrary, the Auditor General believed that the net pension asset should be removed from the Province's balance sheet.

Since the difference of opinion could not be resolved, the government passed a regulation to allow us to report the net pension assets for jointly-sponsored pension plans consistent with the Auditor's interpretation of the accounting standards.

12. The Auditor General has said the government needs to have unilateral control in order to recognize a pension asset for a jointly-defined benefit plan. What did the panel recommend?

This was one of the issues on which the panel was asked to provide advice and recommendations to the government.

The panel's report aligns with the Province's position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province's financial statements.

13. If the jointly-sponsored plans are in surplus, is there a plan to reduce member contributions?

Reducing member contributions is something that would require discussion and agreement between both plan sponsors. In addition, the complexity of pension accounting includes that valuations completed for decisions related to contributions, which are often referred to as funding valuations, are different from those prepared for the province's financial statements.

Questions and Answers
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We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

14. Will you continue to accept qualified opinions in the future?

We will continue to move forward and present the Province's finances fairly and accurately. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her.

However, we would like to remind you that the audit opinion for 2015-16 was not qualified with respect to the 2015-16 results, but rather with respect to the 2014-15 comparative results which did not reflect the regulated accounting.

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Questions and Answers
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challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

32. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

33. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

5 - PAEAP_ DMO Request for Technical Q & A.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [Hosick, Sarah \(TBS\)](#)
Cc: [Miller, Amanda \(TBS\)](#); [Sullivan, Bryant \(TBS\)](#)
Subject: PAEAP: DMO Request for Technical Q & A
Date: February-06-17 3:16:00 PM

Hi Sarah-

In addition to the Media Qs, DMO is requesting a technical Q & A document be drafted for the PAEAP Report. They would like this document to focus on what the Report's findings from a technical perspective (see email below). We feel that the lead for this would be OPCD, with Comms' support. Over the past few weeks a lot of qs have already been drafted that you might be able to pull together into this new document for the DMO.

Here are a few questions you can use as a starting point. In a few places, I've plunked in draft responses provided by Nadine last week:

- What issue does this report address?
- What is the report's conclusion?
- What resources were used to arrive at this conclusion?
- The report supports Ontario's interpretation of the PSAS standards. Why?
- The report disagrees with the Auditor General's interpretation of the PSAS standards. Why?
- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?
The Province appreciates the thoroughness of the Panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance. Not every possible situation can be addressed by accounting standards. In such cases, it is important to reference the conceptual framework and other standards which may provide guidance. The supplementary sources referenced by the Panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered.
- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?
The findings of the Panel are consistent with the position taken by the government during the 2015-16 Public Accounts and for the previous 14 years. Although the Panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government would report on its books, the end result is the same and supports the government's historical accounting for pensions.
- Why is there a supplemental report to review other pension assets like HOOP and CAATTPP?
The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the province's books at this time.

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: Nelson, Dane (TBS)
Sent: February-06-17 12:47 PM
To: Ovenden, Erin (TBS)
Cc: Sullivan, Bryant (TBS); Miller, Amanda (TBS); Simone, Nicole (TBS); MacIntyre, Kyle (TBS)
Subject: FW: APPROVAL: PAEAP Report: Draft Products

Hi Erin,

Thank you for sharing the Asset Panel report products. Please find comments from KM attached for your review. Also, is there a technical Q&A prepared (not necessarily for Minister consumption)? If there isn't, can we have folks develop some? See below. There really isn't a Q&A on what the Panel actually said from a more technical perspective:

- Asset exists; future benefit is available to government as contribution reductions and to employee sponsors as either contribution reductions or benefit improvements under terms of plan.
- expected future benefit under the standard can exist without a unilateral legally enforceable right to reduce future contributions
- Unilateral control not necessary for asset recognition, in fact cannot exist in JDBPs; Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit – each sponsor essentially has a veto
- each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Regards,

Dane Nelson, Senior Policy Advisor

Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

5 - Technical Q&A.docx

What issue does this report address?

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.

What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

What resources were used to arrive at this conclusion?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure the panel fully understood their thinking. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

The report supports Ontario's interpretation of the PSAS standards. Why?

The report agrees with the province's application of the PSAS standards regarding the recording of the net pension asset. The Panel concluded that an asset exists because a resource exists that has a future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

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Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the

independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

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The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the province to recognize a liability for its portion of a net pension liability but unable to recognize an asset for its portion of a net pension asset would not faithfully represent

the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors.

What does it mean that a future benefit is available to the government?

Through potential contribution reductions or benefit improvements, the government will have additional resources (cash) to pay for other government priorities that would have been required if no surplus existed.

Please explain in more detail the concept of unilateral control.

In a joint defined benefit plan, the sponsors share the risks and rewards of a defined benefit plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan.

For the OPSEUPP, each sponsor is allocated their portion of the net pension asset or liability. In a net pension asset situation, each sponsor decides how to use the net asset without the consent of the other sponsor.

For the OTPP, each sponsor must agree jointly on how the net pension asset is used. No sponsor can make decisions without the consent of the other sponsor.

The province does not have unilateral control but does have control over its portion of the net pension asset either directly in OPSEUPP or via a veto in OTPP.

6 - Email - February 7 2017 - RE_ Panel Members' Availability.pdf

From: [Keates, James \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: RE: Panel Members' Availability
Date: February-07-17 1:59:57 PM
Attachments: [Technical QA.docx](#)
[Technical QA.docx](#)

Hello Nelson, here are some suggestions regarding the document for your consideration.

Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat
2nd Floor Frost South, Toronto
james.keates@ontario.ca | 416 325-8082



From: Tam, Nelson (TBS)
Sent: Tuesday, February 07, 2017 12:43 PM
To: Keates, James (TBS)
Subject: FW: Panel Members' Availability
Importance: High

James

Communications wanted a technical Q&A for the Panel release. I drafted responses to those questions (see attached email). Nadine advised you have been supporting the position paper and Panel report analysis, you may assist in reviewing and updating. Some of the wording is from the panel report, some from a Q&A document that Cindy reviewed (attached), and one or two from scratch.

Your input is greatly appreciated. Once complete, I will share with Nadine before sending to Cindy and then back to Communications.

Please make this a priority for this afternoon.

Thanks

Nelson
X20514

From: Ovenden, Erin (TBS)
Sent: February-07-17 8:24 AM
To: Tam, Nelson (TBS); Sullivan, Bryant (TBS); Hosick, Sarah (TBS)
Cc: DiMuzio, Sofie (TBS)
Subject: RE: Panel Members' Availability
Importance: High

Hi Nelson-

Thanks for the Panel's availability. There's no date decided yet. Stay tuned.

We also need ASAP the Technical Qs doc the DMO asked for yesterday (see attached email). Please add to this list the following Q:

The Auditor General says we should count the deficit of a net pension asset, but not the surplus. Is this accurate?

(please feel free to restate this Q if needed).

Also, please make sure the stakeholder outreach plan is updated.

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: Tam, Nelson (TBS)

Sent: February-07-17 8:14 AM

To: Sullivan, Bryant (TBS); Hosick, Sarah (TBS)

Cc: Ovenden, Erin (TBS); DiMuzio, Sofie (TBS)

Subject: RE: Panel Members' Availability

Bryant

Based on the information I have – Patricia, Uros and Paul are available for this week.

Paul will be leaving for vacation on February 11th.

Patricia and Uros will be available for the briefings next week with Opposition and Media if needed.

Patricia said a teleconference as to the process for the above would be appreciated. Is Communications thinking about Friday?

Patricia is updating the DM and MMP slide decks and should have something today for Uros and my review.

I will be at DM briefing this morning if you have additional questions.

Thanks

Nelson
X20514

From: Sullivan, Bryant (TBS)

Sent: February-06-17 10:48 PM

To: Tam, Nelson (TBS); Hosick, Sarah (TBS)

Cc: Ovenden, Erin (TBS); DiMuzio, Sofie (TBS)

Subject: Panel Members' Availability

Importance: High

Hi Nelson, are the panel members available this week?

I believe you said Murray is in Vietnam, but wondering about Patricia, Uros and Paul.

Need to know first thing.

Thanks

Bryant

Bryant Sullivan, APR

Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

(c) 647-330-5784

(e) Bryant.J.Sullivan@ontario.ca



Communications Branch

Your Strategic Partner

Technical QA.pdf

Attachment Technical QA.docx (1385 Bytes) cannot be converted to PDF format.

Technical QA_1.pdf

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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.

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6 - Technical QA.docx

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7 - Email - February 7 2017 - Panel - Technical Q&A for your review.pdf

From: Tam, Nelson (TBS)
To: [Petsche, Nadine \(TBS\)](#)
Subject: Panel - Technical Q&A for your review
Date: February-07-17 2:18:00 PM
Attachments: [Technical QA.DOCX](#)

Nadine

Attached are some technical Q&As from Communications that they wanted answered. Three were from an email that you responded to are included. I had James take a look and his edits are tracked changed. Some of the answers came from the executive summary or previous Q&A that Cindy had reviewed.

After your review, I will provide a clean copy to Cindy for her review.

Thanks

Nelson
X20514

Technical QA_2.pdf

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7 - Technical QA.DOCX

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8 - Email - February 8 2017 - RE_ Technical QA.DOCX.pdf

From: [Keates, James \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: RE: Technical QA.DOCX
Date: February-08-17 10:01:03 AM
Attachments: [Technical QA v1.docx](#)
[Technical QA v1.docx](#)

Hi Nelson, I have included some suggestions regarding Nadine's last two comments. Could you please review. Thanks
Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat
2nd Floor Frost South, Toronto
james.keates@ontario.ca | 416 325-8082



From: Jim Keates [<mailto:jimkeates@hotmail.com>]
Sent: Wednesday, February 08, 2017 9:10 AM
To: Keates, James (TBS)
Subject: Fw: Technical QA.DOCX

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: February 8, 2017 9:02 AM
To: Tam, Nelson (TBS)
Cc: Jim Keates (jimkeates@hotmail.com)
Subject: Technical QA.DOCX

Nelson,
I've reviewed the draft Q&As. Attached are my suggested edits and comments.
There are a couple of items that I think Jim should review, so copying him on this response.
Thanks.
Nadine

Technical QA v1.pdf

Attachment Technical QA v1.docx (1385 Bytes) cannot be converted to PDF format.

Technical QA v1_1.pdf

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8 - Technical QA v1.docx

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9 - Email - February 8 2017 - Panel - Technical Q&As For Review.pdf

From: Tam, Nelson (TBS)
To: [Veinot, Cindy \(TBS\) \(Cindy.Veinot@ontario.ca\)](mailto:Cindy.Veinot@ontario.ca)
Cc: [Hosick, Sarah \(TBS\) \(Sarah.Hosick@ontario.ca\)](mailto:Sarah.Hosick@ontario.ca)
Subject: Panel - Technical Q&As For Review
Date: February-08-17 10:31:00 AM
Attachments: [Technical QA v1.docx](#)

Cindy

Attached are the Technical Q&A that Communications requested. I drafted it, and both Nadine and James reviewed. All the edits have been accepted in this document.

Thanks

Nelson
X20514

Technical QA v1_2.pdf

What issue does this report address?

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's 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 of Ontario during the 2015-16 Public Accounts audit.

What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements. The Province looks forward to receiving the panel's results on two additional pension plans under review.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been since 2001 when the accounting standard was first adopted.

What resources were used to arrive at this conclusion?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Office of the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. 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.

The report supports Ontario's interpretation of the PSA standards. Why?

The report agrees with the province's application of the PSA standards regarding the recording of the net pension assets for the jointly sponsored plans. The Panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

The report disagrees with the Auditor General's interpretation of the PSA standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans. The panel does not specifically address the AG's interpretation of PSA standards; however, its conclusions are different based on its assessment and understanding of the facts.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance.

The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

Why is there a supplemental report to review other pension assets like HOOPP and CAATPP?

The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP which are multiemployer pension plans, are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the Province's books at this time.

The Province will continue to review its accounting treatment as PSAB standards change in the future.

The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province to recognize a liability for its portion of a net pension liability but unable to recognize an asset for its portion of a net pension asset would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

What does it mean that a future benefit is available to the government?

The essence of assets are their future economic benefits. Assets embody future economic benefits that allow a government to achieve its 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.

Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with 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. 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.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSA standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The province does not have unilateral control but does have control over its portion of the net pension asset either directly for OPSEUPP or via a veto for OTPP. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.